

Augusta Resource Corp.

(AZC-T: C\$2.25)

August 20, 2013

SELL, High Risk

Dundee target: C\$2.30

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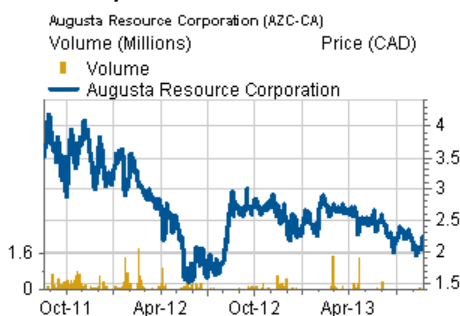
Lawsuit Filed Challenging Rosemont's Aquifer Protection Permit

AZC-T	New	Last
Rating	--	SELL
Target Price	--	\$2.30
Risk	--	High
Projected return	2.2% ▼	11.1%
NAV/share	--	\$4.99
Target/NAV multiple	--	0.5x
Share Data		
Current price		\$2.25
52-week high/low	H-\$3.06	L-\$1.94
Market Cap (mm)		\$325
EV (mm)		\$418
Shares Outstanding - Basic		144.3 MM
Shares Outstanding - FD		152.1 MM
Avg. Trading Volume - One month		0.0 MM
Net Debt (net cash) (mm)		\$93
Dividend per share		0.0%
Dividend yield		0.0%
Operations		
Locations	Arizona, USA	
Main commodity(ies)	Cu, Mo	
2P Reserve	5.9B lbs Cu	
Yrly Production	243MM lbs	
Avg. Cash Costs	\$1.60	
NAV/share	\$4.99	
P/NAV	0.5x	
Discount Rate	10.0%	

Year	Forecast		
	2012A	2013E	2014E
Copper Price (US\$/lb)	\$3.61	\$3.24	\$3.30
Copper Prod. mmlbs	\$0.00	0.0	\$0.00
Revenue (\$mm)	\$0.00	\$0.00	\$0.00
EPS	na	na	nm
P/E	na	na	nm
EBITDA (\$mm) (75%)	na	na	nm
EV/EBITDA	na	na	nm
CF (\$mm)	\$0.0	\$0.0	(\$5.0)
CF/share	\$0.0	\$0.0	(\$0.0)
Capex (\$mm)	\$0.0	\$243.0	\$613.0
FCF (\$mm)	\$0.0	(\$243.0)	(\$618.0)

All figures are in US\$ unless otherwise stated
 Source: Factset, DCM, Company Documents

AZC: Price/Volume Chart



Source: Factset

Company Description

Augusta Resource Corporation, headquartered in Vancouver, BC, owns 80% of the Rosemont Cu-Mo-Ag project near Tucson, Arizona

We believe that this Lawsuit could be the first of many to come

On August 16th, a lawsuit was filed by private citizens and not-for-profit groups that seeks the reversal of the Arizona Water Quality Appeals Board's ("AWQAB") decision to dismiss grievances filed against Rosemont's aquifer protection permit ("APP") which was issued to AZC in April 2012. The plaintiffs claim that the appeals board "arbitrarily and capriciously" upheld the rejection of an earlier permit appeal. The lawsuit also charges that the Arizona Department of Environmental Quality ("ADEQ") issued the permit without taking into account the mine's impact on surface waters and that the project design, as currently outlined, is substantially different from the plan submitted during the initial permit application. **Note: AZC is not being sued.** We believe that this first lawsuit could be the start of a lengthy string of subsequent litigation. Locals in Pima County, where the proposed mine site is located, have said that further lawsuits will be filed after subsequent permits are granted.

AZC Permitting Outlook - We Expect further Delays

AZC still needs their Clean Water Permit (404 from US Army Corp. of Engineers) for Rosemont and a Record of Decision ("ROD") from the U.S. Forest Service ("USFS"). Augusta only expects to receive its Clean Water Permit after the issuance of the FEIS and ROD on the Plan of Operations from the USFS. The Coronado National Forest Supervisor would like to make his final decision on the mine by Sept. 27. However, this timeline may not be met. Regardless of the USFS' decision on the ROD we expect there will be lawsuits filed upon its release. The local county where Rosemont is located has said it will pursue action in the courts in an effort to impede further progress. This lawsuit shows that they are not kidding. Our thesis that construction won't begin in 2013 remains intact. We believe that H1/14 is the best case scenario for construction to begin.

Cash Balance - AZC will Probably Exercise \$10MM Convertible Notes

Once permits are in hand, AZC can draw down funds available from Silver Wheaton and Kores. However, at the moment, with ~\$6MM in cash and a monthly burn rate of \$2.5MM, we believe that AZC will exercise the \$10MM convertible notes announced last week. This should give AZC enough funds for the rest of the year.

BOTTOM LINE - World Class Asset with the Wrong Address: We believe that the Rosemont project is a world-class asset which will eventually get permitted, but it is located in an area with significant local opposition which adds to uncertainty with regards to when it will get built. We believe the timeline proposed for project development is aggressive (by year-end) as project construction cannot begin until all necessary permits are in hand. **We have a SELL rating on AZC with a target price of C\$2.30/share based on a 0.5x multiple (unchanged) to our NAV of \$4.99/share.**

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Augusta Resources Corp. (AZC)

SELL, High Risk	Basic Shares (MM)	144	Analyst:	Associate:
Share Price	\$2.25	Diluted Shares (MM)	152	Joseph Gallucci, MBA
Target Price	\$2.30	Basic Mkt Cap (C\$MM)	315	514-396-0330
NAV	\$4.99	Enterprise Value (C\$MM)	408	514-396-0325
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COMPANY SUMMARY

Augusta Resource Corporation (Augusta) is engaged in the acquisition, exploration and development of natural mineral resource properties. Augusta is currently focused on advancing its Rosemont Copper project near Tucson, Arizona. Rosemont hosts a large copper/molybdenum reserve of 5.9 billion pounds of copper and 194 million pounds of molybdenum. Over its 21+ year mine life, Rosemont's 2012 feasibility study estimates the project's average annual production is expected to be approximately 243 million pounds of copper and 5.4 million pounds of molybdenum at average by-product cash costs of \$1.02 per pound of copper.

RESERVES AND RESOURCES

Category	Reserves	Cu	CuEq	Cont. Cu	CuEq
	(M Tonnes)	(%)	(%)	(M Tonnes)	(M Tonnes)
Reserves					
Proven and Probable	533.8	0.44%	0.57%	2.3	3.0
Resources					
Measured and Indicated	735.4	0.41%	0.53%	3.0	3.9
Inferred	110.9	0.40%	0.50%	0.4	0.6
Total Resources	846.3	0.41%	0.53%	3.5	4.4
Per Pound Valuation					
EV/Cu Eq Resource	\$0.040/lb				

**Reserves are inclusive of reserves*

INVESTMENT THESIS

The Rosemont project is a world-class copper-molybdenum-silver asset, located in an area with significant infrastructure, which we believe will eventually get permitted. However, we believe the initial timeline proposed for project development is aggressive as project construction cannot begin until AZC obtains the necessary permits and a positive record of decision from the U.S. forestry service. Further we believe this last delay will raise confidence concerns on the new timelines set by AZC. We continue to feel that permitting is the main catalyst for AZC and we continue to await a resolution to this process.

INPUT PRICES

Key Commodities	E	1E	2E	3E	Long Term
Copper	US\$/lbs 3.61	3.24	3.30	3.50	2.75
Molybdenum	US\$/lbs 12.78	10.38	11.00	11.00	11.00
Silver	US\$/oz 31.13	3.90	3.90	3.90	3.90

BALANCE SHEET

(US\$MM)	2012A	2013E	2014E	2015E	2016E
Cash	-	-	(555.8)	(133.2)	416.0
LT Assets	10.6	253.6	866.6	881.6	896.6
Total Assets	-	-	310.8	826.6	1,418.7
Short Term Debt	-	-	-	32.2	30.3
Long term Debt	-	-	83.0	83.0	83.0
Total Liabilities	-	-	83.0	115.2	113.3
Total Assets - Total Liabilities	-	-	227.8	711.4	1,305.4

MANAGEMENT

Gil Clausen
President and Chief Executive Officer; Director
 Mr. Clausen has over 30 years of executive and operations experience in the mining industry with several major global and domestic mining companies. He has held senior operations and project development positions before moving into executive roles where he was responsible for executing corporate growth strategies including development and operations for several large precious metal, base metal, and coal producing companies.

Rodney O. Pace
Executive Vice President and Chief Operating Officer President and CEO, Rosemont Copper Company
 Mr. Pace joined Augusta in January 2008 as Vice President Operations and General Manager and was promoted to his current position in May 2009. He has more than 25 years experience in mine development and operations, working in a broad range of executive and management positions, including Vice-President of North American Operations for Washington Group International.

Mark G. Stevens
Vice President, Exploration
 Mr. Stevens joined Augusta as Chief Geologist in 2006 and has more than 27 years of technical and managerial experience in the exploration, evaluation, and mining of base and precious metals. Prior to joining Augusta, he was the Chief Geologist with Pincock, Allen & Holt, a consulting group based in Denver, Colorado.

NET ASSET VALUE

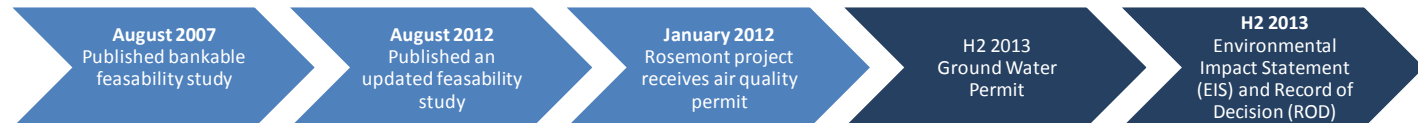
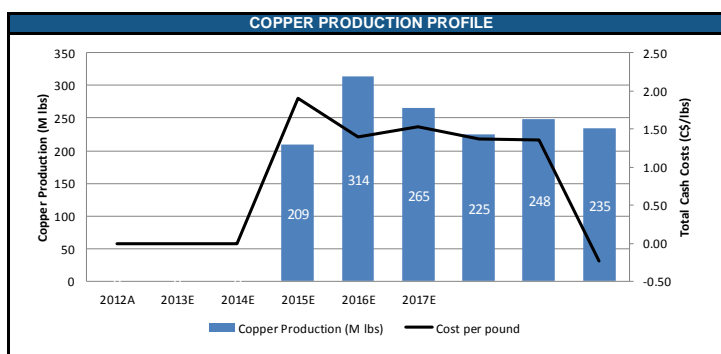
Assets US\$	NAV (mm)	/Share	% NAV	% Resource
Rosemont	\$836	\$5.50	110%	100%
Total Mining and Investment Assets	\$836	\$5.50	110%	
Working Capital	\$21	\$0.14	3%	
Balance Sheet Items & Expenditures	-\$98	-\$0.65	-13%	
Total	\$759	\$4.99	100%	

PREVIOUS FINANCING

(MM)	(MM)	(C\$)	(C\$MM)		
Date	Type	Shares	Price	Proceeds	Warrants
AUG-10	Private Placement	10.9	\$2.75	30.0	5.5M @ \$3.90, Feb. 2012
MAR-10	Public Offering	11.8	\$2.75	32.5	
AUG-09	Public Offering	12.4	\$2.02	25.0	

TOP 5 SHAREHOLDERS

Name	Shares	Percentage
JPMorgan Asset Management (UK) Ltd.	9,064,827	6.3%
Front Street Capital, Inc.	7,564,400	5.2%
Mackenzie Financial Corp.	5,447,602	3.8%
Archer Capital Management LP	4,599,543	3.2%
Smithwood Advisers LP	3,345,500	2.3%
Top 5 Shareholders	30,021,872	20.8%
Top 10 Shareholders	38,174,424	26.4%
Insider Ownership	13,188,185	9.1%



Source: Company Documents, Factset, Interra, DCM

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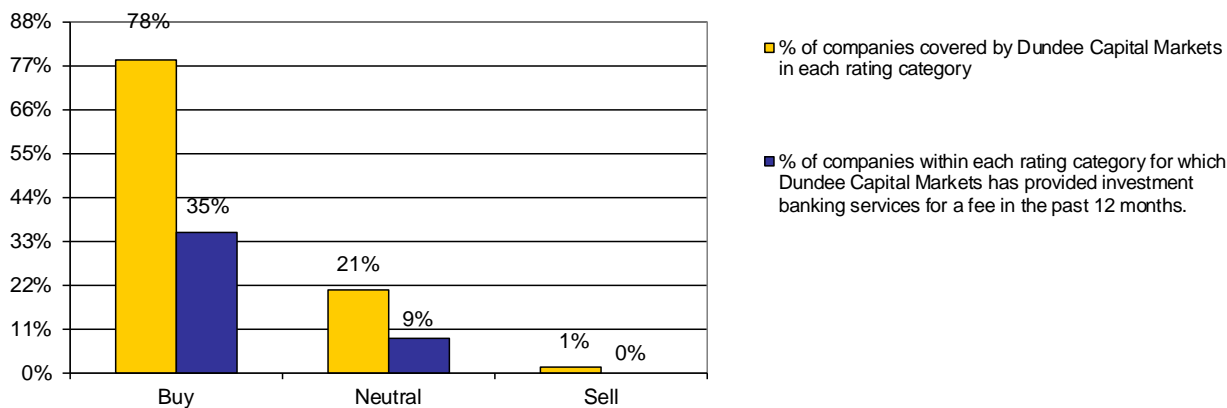
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