DUNDEE CAPITAL MARKETS

MANAGEMENT UPDATE

# Hudbay Minerals Inc

(HBM-T: C$8.15)

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**NEUTRAL, High Risk**
Dundee target: C$8.50

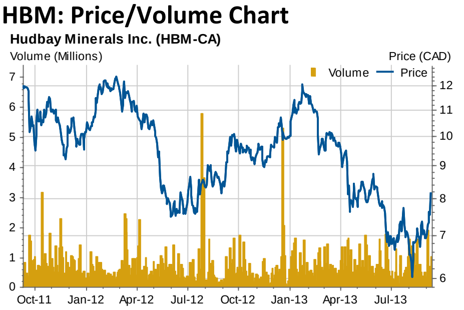
# Hudbay: Update from management

| HBM-T | New | Last |
|---|---|---|
| **Rating** | -- | NEUTRAL |
| **Target (C$)** | -- | $8.50 |
| **Risk** | -- | High |
| **Projected return** | 7% ▼ | 20% |
| **NAV (C$)** | -- | $15.03 |
| **Target/NAV** | -- | 0.6x |
| **Share Data** | | |
| Current price (C$) | | $8.15 |
| 52-week high/low (C$) | H-$12.10 | L-$6.02 |
| Market Cap (C$M) | | $1,432 |
| Enterprise Value (C$M) | | $1,550 |
| Shares Outstanding - Basic | | 172.0 M |
| Shares Outstanding - FD | | 175.7 M |
| Average Volume - One month | | 0.7 M |
| Net Debt (net cash) (C$M) *Pro forma* | | $118 |
| Dividend per share | $0.20 | 2.5% |
| NAV/share - P/NAV | $15.03 | 0.54x |
| Discount Rate | | 10.0% |

| Forecast | | | |
|---|---|---|---|
| Year | 2012A | 2013E | 2014E |
| Copper Price (US$/lb | $3.61 | $3.24 | $3.30 |
| Copper Prod. (M lbs) | 88 | 82 | 109 |
| Revenue (M) | $703 | $541 | $707 |
| EPS | $0.26 | $0.04 | $0.32 |
| P/E | 31.6x | 218.7x | 25.3x |
| EBITDA (M) | $181.3 | $101.4 | $246.3 |
| EV/EBITDA | 8.6x | 15.3x | 6.3x |
| CF (M) | $121.2 | $84.4 | $147.3 |
| CF/share | $0.69 | $0.48 | $0.84 |
| Capex (M)* | $775 | $867 | $412 |
| FCF (M) | ($689) | ($809) | ($282) |

**Net of the PM deal cash inflows*
*All figures in US$ unless stated otherwise.*
*Sources: DCM, Factset, Company Documents*

### HBM: Price/Volume Chart




*Source: Factset*

### Company Description

*Hudbay is producing mainly zinc metal and copper concentrate. The company has three major wholly owned assets/projects; the "777" zn-cu underground mine in northern Manitoba which is generates most of the current cash flows, the zn-cu-au Lalor project also in northern Manitoba, along with the Constancia cu-au development project in Peru.*

*While we like the long term production profile for HBM (in the next cycle), we believe that in the short term the catalysts to own the shares are not apparent and construction risk remains, especially at Constancia which recently saw its capex increase by 15%.* **We are reiterating our NEUTRAL rating and our 12-month target of C$8.50/share using a 6.5x EV/EBITDA multiple to our 2014 EBITDA estimate of $246M (no changes).**

We recently had the opportunity for an update from management at HudBay Minerals (President and CEO David Garofalo). The highlights of the update were the following:

- With construction at **Constancia** almost 50% complete (project construction completion rate is roughly 5%/month), this project is back on schedule and management believe that risks of further capex creep are under control (as most civil engineering/excavation works are complete and long lead time items are already on site).
- The remaining critical path items at Constancia are social risks (although 30 of 36 families impacted by site construction have already moved) and more importantly the 70km power line construction. Power line construction requires agreements with landowners along the power corridor, and HBM has been hampered in finding all the relevant landowners required to negotiate agreements. The good news is that HBM has over 12 months to reach these agreements and that power for commissioning of the mill can be achieved with diesel generator sets already at site. While mill commissioning is not an issue; mill operation will require a power line linked up. Management feels that infrastructures (roads/rail/port) and power will be available to meet project schedule.
- **Lalor** Project is on-budget and at least 3-months ahead of schedule.
- **Reed** project is slightly under budget ($72M) and a little ahead of schedule for start-up in Q4/2013.
- **Financing**: The $120M Precious Metal stream financing (likely with **Silver Wheaton**), is in documentation but has been delayed as HBM tries to improve the terms of the transaction. The $100M copper off-take is in standby and Line of Credit agreements with smelters should be signed by yearend. These are the last two items in the Constancia financing package.
- Finally with a roughly $300M buffer available at the end of 2014, HBM has no immediate need to issue equity at below 50% of NAV. An equity issue might be contemplated in conjunction with the acquisition of a junior developer which would provide the next pipeline project for HBM after Constancia is completed. This suggests that a possible acquisition could occur by H2/2014.

# MANAGEMENT UPDATE - PROJECTS MOVING ALONG NICELY

Below we go into some detail on the different issues discussed with HBM management.

**1. CONSTANCIA PROJECT**

With construction at Constancia almost 50% complete (project construction completion rate is roughly 5%/month), the Constancia project is back on schedule following rainy season, tailings dam/bog excavation issues earlier this year. Management believe that risks of further capex creep are under control as most civil engineering/excavation works are complete and long lead time items are already on site. HBM now has a better handle on labor efficiency in both wet and dry months. Looking at performance, approximately $170 mm of the $230 mm or so in capex creep was not due to an underestimate of cost of moving material (which were on target) but a significant underestimation of volumes to be moved by the consulting engineers. At the moment, it looks like the road construction costs for Constancia may be less than expected (estimated capex $30mm) and HBM might be able to “claw back” some of the $230mm capex increase announced in Q2. Of the roughly $230mm capex increase, approximately $120mm was for project contingency. So project contingency at Constancia is approximately $115mm on around $1B left to spend or 11.5%, with 90% of detailed engineering complete.

The remaining critical path items at Constancia are social risks (although 31 of 36 families impacted by site construction have already moved to new housing) and more importantly the 70km power line construction. Power line construction requires agreements with landowners along the power corridor, and HBM has been hampered in finding all the relevant landowners required to negotiate agreements. The good news is that HBM has signed agreement with 50% of the landowners and has until H1/2015 to reach these agreements with the rest. Electrical power requirements for commissioning of the mill can be achieved with diesel generator sets already at site. While power for mill commissioning is not an issue, mill operation will require a power line link up. Management feels that infrastructure (roads /rail port) and power will be available to meet project schedule.

There have also been other positive costs variances, these include:

- Port operating costs will be less than the $8/tonne of concentrate expected.
- Power agreement is close to being signed and will probably come in at <$0.06/kWh.
- All long lead time equipments are now on site.
- Tire and explosive costs have been lower than anticipated.
- Management estimates that even with the capex increase the levered IRR of the project is 13% down from 15% originally.

Finally, once Constancia goes into operation and more tailing facilities are permitted, approximately 463mm tonnes of resources can likely be converted into reserves with further in-fill drilling. This would possibly double P+P reserves at Constancia and could lead to a doubling in the mine life. *There is a site visit to Constancia in early October 2013 and we should more information then.*

**2. LALOR LAKE PROJECT**

The Lalor project is on budget with only $95 mm left to spend now that the $344 mm on the Lalor concentrator has been postponed into 2015. As HBM has been doing the underground development need for the shaft sinking, this phase of the project is now 3 months ahead of schedule. Up to now HBM has been using the ventilation shaft at Lalor to hoist ore. But once the new mine shaft is complete early in 2015 the changeover to this new shaft will be completed by mid-2014 ahead of schedule. This will allow Lalor to operate at 2,700 tpd in line with the expanded Snow Lake concentrator (costing $9 mm). The Q2 decision to delay $344 mm in spending on the Lalor concentrator until 2015 in fact will eliminate double handling of the ore as the increased output from the mine would have been stockpiled until the concentrator came on stream in 2018. Now the expanded Snow lake concentrator can handle this ore in 2014 and stockpiling is eliminated. Lalor concentrator should be able to treat 4,500 tpd of ore by 2018. By delaying concentrator spending to post-2014, HBM gives itself precious financial flexibility until after Constancia comes on stream. HBM management expects Constancia to begin generating CF by mid-2014. It's also worth noting that by the end of 2018 when the new concentrator is available the commodity mix for the mine will begin to become more copper rich, as the mine sequence has HBM mining the deeper copper-gold rich part of the ore-body.

In 2014, HBM will complete and begin drill these deeper copper-gold zones from its exploration platform (exploration cross cut). If the results are as expected i.e. the definition of a significant copper-gold zone, HBM will begin designing how it will access this new zone. Options include deepening the present shaft to 150 m from 1000m (although this shaft is away from the center of gravity of the copper-gold zone), descending with a ramp from end of the current shaft, or possibly putting in an internal shaft or winze. It remains to be seen what option HBM chooses.

In the end, the saving on the deferral of the Lalor concentrator ($344 mm) more than offset the $230 mm increase in capex at Constancia.

**3. REED LAKE**

HBM expects to receive the Reed Lake operating license by the end of September 2013. This will allow a Q4/13 start-up of the mine, leaving it slightly ahead of schedule and just below budget of $72mm. The underground mine has seen the ramp advanced to 819m and underground development is underway. HBM already has 10,000 tonnes of ore from Reed Lake underground stockpiled at surface. Reed looks to be a nice replacement for the Trout Lake mine which closed last year.

# Financial Condition - Looks Like a $500M Buffer

At the end of June HBM had roughly $1.1 B in cash and once spending on Constancia reaches $1 b will receive a further $125 mm from the 777 Precious Metal streaming transaction. There is also the possibility of HBM receiving $100 mm in Canadian and Peruvian tax rebates. In Q2/13 HBM has cut its dividend (good news), taken $100 mm in deferrals and spending cuts for 2013/14 and deferred capex spending ($325 mm on the Lalor concentrator). By slowing spending in Saskatchewan, HBM has insured that it will complete Constancia by the end of 2014 with around $300 mm buffer (this analysis does not include any cash flow from operations meaning buffer should be higher). This analysis does include both PM streaming deal and Off take agreement (totaling $200 mm). So HBM now financed to complete all developments until 2014. It's worth noting that the $100 mm in spending cuts and deferrals were designed to ensure that the current operations are CF neutral should copper prices fall to $2.75/lb. Management also noted that HBM is looking at putting in place a put/call hedge spread at copper prices between $3.00/lb. and $3.50/lb. for 2014 in order to further de-risk its capital spending program. HBM does not usually hedge, so this highlight a level of risk aversion we are not familiar with at HBM.

***Estimated Sources and Uses of Cash***

**2013**

| Sources of cash 2013E | | | Uses of cash 2013E | | | Estimated cash balance |
|---|---|---|---|---|---|---|
| Cash & cash equivalents | $1,077 | * | Constancia - Capex | $606 | *** | |
| Investments available for sale | $66 | * | Lalor - Capex | $58 | | |
| From Silver Wheaton Deal | $125 | | Reed Lake - Capex | $21 | | |
| Revolving credit Facility | $36 | ** | Snow Lake - Capex | $9 | *** | |
| Equipment Lease (Constancia) | $130 | ** | Sustaining - Capex | $33 | *** | |
| PM Stream at Constancia | $100 | | Interest payments (2013E) | $31 | *** | |
| **Total sources** | **$1,533** | | **Total uses** | **$758** | | **$775** |
| Operating cash flow (2013E) | $0 | *** | Dividend estimate (2013E) | $2 | *** | |
| **Estimated total with FCF** | **$1,533** | | **Total uses with dividend** | **$760** | | **$773** |

**As of June 30, 2013. **Pro forma ***Our estimate.*

**2014 (with $344M at Lalor and $116M at Constancia pushed in 2015)**

| Sources of cash 2014E | | Uses of cash 2014E | | Estimated cash balance |
|---|---|---|---|---|
| Cash & cash equivalents | $773 | Constancia - Capex | $378 | |
| Offtake at Constancia | $100 | Lalor - Capex | $37 | |
| | | Reed Lake - Capex | $4 | |
| | | Sustaining - Capex | $73 | |
| | | Interest payments (2014E) | $62 | |
| **Total sources** | **$873** | **Total uses** | **$554** | **$319** |
| Operating cash flow (2014E) | $0 | Dividend estimate (2014E) | $3 | |
| **Estimated total with FCF** | **$873** | **Total uses with dividend** | **$557** | **$316** |

*Source: Company data, Dundee Capital Markets*

# Valuation & Recommendation: Looks cheap but execution risks remains

**RECOMMENDATION - Reiterate NEUTRAL and target of C$8.50/sh**

After a couple of years of declining production, we believe HBM will turn the corner with Lalor Lake and Reed Lake mines opening this year and ramping up in 2014, together with Constancia which is still expected to begin production in 2015 and will transform the company into a major copper producer (with zinc upside). But while we like the long term production profile for HBM, we believe that in the short term the catalysts to own the shares are not apparent and construction and liquidity risks remain, especially at Constancia which recently saw its capex increase by 15%. Risks include the need for additional financing/liquidity to complete Constancia (which could still see its capex increase further). **We are reiterating our NEUTRAL rating and our 12-month target of C$8.50/sh using a 6.5x EV/EBITDA multiple to our 2014 EBTIDA estimate of $246M (no changes).**

**COMPARABLE VALUATION - Using consensus**

- With the expected growth in copper production to come only once Constancia is online in 2015, not surprisingly HBM currently looks expensive when looking at P/E and CFPS multiples for 2014. We note that the EV/EBITDA multiple actually looks cheap because HBM has more than $1B in cash, but that cash will be spent on Constancia and Lalor.
- Using consensus (and the sector average in brackets), the stock is currently trading at:

- **4.9x** 2014 EV/EBITDA (peers at 5.5x)
- **26.6x** 2014 P/E (12.2x)
- **13.6x** 2014 P/CF (6.9x)
- **0.51x** P/NAV (our estimate), below our base metals average of 0.64x

## Consensus Multiples from FactSet

**Copper & Zinc**

| Name | Ticker | Commod | Exch. Curr. | Price 10-Sep | Mcap (US$m) | EV (US$m) | EV/EBITDA 2012 | EV/EBITDA 2013 | EV/EBITDA 2014 | P/E 2012 | P/E 2013 | P/E 2014 | P/CFPS 2012 | P/CFPS 2013 | P/CFPS 2014 | Analyst |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Producers** | | | | | | | | | | | | | | | | |
| Tiger Resources Limited | TGS-AU | Cu | AUD | $0.27 | $169 | $171 | 3.7x | 1.9x | **1.0x** | nmf | 3.3x | 2.4x | 5.6x | 3.5x | 1.9x | -- |
| OZ Minerals Limited | OZL-AU | Cu, Au, Ag | AUD | $4.30 | $1,214 | $530 | 1.5x | 4.2x | **2.1x** | 7.8x | nmf | nmf | 3.7x | 12.6x | 4.6x | -- |
| Capstone Mining Corp. | CS-CAN | Cu, Ag, Au | CAD | $2.30 | $843 | $616 | 4.3x | 4.5x | **2.3x** | 11.1x | 16.7x | 6.5x | 7.4x | 6.9x | 4.3x | JG |
| Katanga Mining Limited | KAT-CAN | Cu, Co | CAD | $0.53 | $976 | $1,577 | nmf | 5.5x | **3.5x** | 25.6x | 12.8x | 7.9x | nmf | 4.1x | 2.7x | DC |
| Sandfire Resources NL | SFR-AU | Cu, Zn, Pb | AUD | $6.56 | $950 | $1,139 | nmf | 4.6x | **4.5x** | nmf | 11.4x | 8.2x | nmf | 5.1x | 4.4x | -- |
| Hudbay Minerals Inc. | HBM-CAN | Cu, Zn, Au | CAD | $8.15 | $1,354 | $966 | 5.3x | 10.9x | **4.9x** | nmf | nmf | 26.6x | 9.7x | nmf | 13.6x | DC |
| Freeport-McMoRan Coppe | FCX-USA | Cu, Au, Mo | USD | $31.93 | $33,140 | $55,832 | 8.1x | 7.0x | **5.2x** | 10.0x | 13.1x | 10.3x | 6.9x | 5.3x | 4.4x | -- |
| Antofagasta plc | ANTO-LON | Cu, Au, Mo | GBP | 8.97 | $13,895 | $13,147 | 3.4x | 5.0x | **5.2x** | 10.6x | 15.8x | 16.1x | 5.2x | 7.9x | 7.6x | -- |
| Taseko Mines Limited | TKO-CAN | Mo, Cu, Au | CAD | $2.21 | $411 | $587 | 17.7x | 13.2x | **5.3x** | nmf | nmf | 8.7x | 9.2x | 9.7x | 4.4x | JG |
| Panaust Limited | PNA-AU | Cu, Au | AUD | $2.26 | $1,302 | $1,449 | 4.4x | 5.6x | **5.5x** | 8.8x | 14.5x | 13.4x | 6.2x | 8.2x | 5.8x | -- |
| Copper Mountain Mining C | CUM-CAN | Cu, Au | CAD | $1.93 | $184 | $562 | 9.3x | 10.9x | **5.5x** | 9.3x | 28.9x | 5.0x | 3.9x | 4.6x | 2.3x | JG |
| Lundin Mining Corporation | LUN-CAN | Cu, Zn, Pb | CAD | $4.84 | $2,731 | $2,510 | 10.3x | 7.3x | **7.3x** | 14.7x | 17.7x | 14.4x | 14.1x | 10.3x | 8.9x | DC |
| First Quantum Minerals Lt | FM-CAN | Cu, Ni, Au | CAD | $18.99 | $10,835 | $13,784 | 12.0x | 10.1x | **7.5x** | 15.7x | 20.3x | 15.4x | 12.4x | 9.6x | 8.3x | DC |
| Kazakhmys PLC | KAZ-LON | Cu, Zn, Au | GBP | 3.11 | $2,560 | $3,273 | 3.6x | 6.2x | **7.8x** | 5.8x | 18.6x | nmf | 3.8x | 5.8x | 7.3x | -- |
| Southern Copper Corporat | SCCO-USA | Cu, Mo, Ag | USD | $28.36 | $23,883 | $25,786 | 6.9x | 8.6x | **8.4x** | 12.4x | 14.8x | 15.0x | 7.1x | 11.1x | 11.3x | -- |
| Imperial Metals Corporatio | III-CAN | Cu, Au, Mo | CAD | $11.79 | $848 | $1,008 | 12.3x | 15.6x | **12.0x** | 22.7x | nmf | 21.3x | 10.0x | nmf | 18.2x | -- |
| | | | | **Producers Average** | **$5,956** | **$7,683** | **7.3x** | **7.6x** | **5.5x** | **12.9x** | **15.7x** | **12.2x** | **7.5x** | **7.5x** | **6.9x** | |

## Market Activity

**Copper & Zinc**

| Name | Ticker | Commod | Exch. Curr. | Price 10-Sep | Performance 5D | 3M | 6M | 1 Year | 52H | 52L | 100%=52H 0%=52L | Mcap (US$m) | Analyst |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Producers** | | | | | | | | | | | | | |
| Hudbay Minerals Inc. | HBM-CAN | Cu, Zn, Au | CAD | $8.15 | 11.3% | 4.8% | (18.8%) | (13.9%) | $12.10 | $6.02 | 35% | $1,354 | DC |
| Lundin Mining Corporatio | LUN-CAN | Cu, Zn, Pb | CAD | $4.84 | 4.5% | 20.1% | (0.6%) | (1.2%) | $5.54 | $3.68 | 62% | $2,731 | DC |
| Antofagasta plc | ANTO-LON | Cu, Au, Mo | GBP | 8.97 | 1.8% | 1.4% | (13.8%) | (23.0%) | 13.92 | 7.83 | 19% | $13,895 | -- |
| Capstone Mining Corp. | CS-CAN | Cu, Ag, Au | CAD | $2.30 | 5.5% | 6.5% | (5.7%) | (9.8%) | $2.91 | $1.68 | 50% | $843 | JG |
| First Quantum Minerals L | FM-CAN | Cu, Ni, Au | CAD | $18.99 | 4.6% | 9.3% | (8.0%) | (12.1%) | $24.90 | $14.22 | 45% | $10,835 | DC |
| Kazakhmys PLC | KAZ-LON | Cu, Zn, Au | GBP | 3.11 | (1.3%) | 3.4% | (40.3%) | (54.1%) | 8.40 | 2.28 | 14% | $2,560 | -- |
| Freeport-McMoRan Copp | FCX-USA | Cu, Au, Mo | USD | $31.93 | 3.8% | 5.3% | (4.1%) | (20.0%) | $43.65 | $26.37 | 32% | $33,140 | -- |
| Sandfire Resources NL | SFR-AU | Cu, Zn, Pb | AUD | $6.56 | 1.7% | 4.1% | (6.8%) | (17.3%) | $9.09 | $4.92 | 39% | $950 | -- |
| Copper Mountain Mining | CUM-CAN | Cu, Au | CAD | $1.93 | 9.7% | 14.9% | (37.5%) | (39.3%) | $4.53 | $1.43 | 16% | $184 | JG |
| Taseko Mines Limited | TKO-CAN | Mo, Cu, Au | CAD | $2.21 | 2.3% | 10.0% | (26.3%) | (34.2%) | $3.48 | $1.88 | 21% | $411 | JG |
| Southern Copper Corpora | SCCO-USA | Cu, Mo, Ag | USD | $28.36 | 3.8% | (4.5%) | (24.8%) | (17.5%) | $42.03 | $25.75 | 16% | $23,883 | -- |
| Panaust Limited | PNA-AU | Cu, Au | AUD | $2.26 | 3.7% | (5.8%) | (13.1%) | (24.2%) | $3.53 | $1.73 | 29% | $1,302 | -- |
| Tiger Resources Limited | TGS-AU | Cu | AUD | $0.27 | 8.0% | 35.0% | (15.6%) | (15.6%) | $0.38 | $0.16 | 52% | $169 | -- |
| OZ Minerals Limited | OZL-AU | Cu, Au, Ag | AUD | $4.30 | 1.2% | 5.1% | (28.0%) | (35.6%) | $8.66 | $3.82 | 10% | $1,214 | -- |
| Katanga Mining Limited | KAT-CAN | Cu, Co | CAD | $0.53 | (1.9%) | (15.9%) | (22.1%) | (7.0%) | $0.93 | $0.41 | 23% | $976 | DC |
| Imperial Metals Corporati | III-CAN | Cu, Au, Mo | CAD | $11.79 | (0.1%) | 6.8% | (16.1%) | 3.1% | $14.95 | $10.01 | 36% | $848 | -- |
| | | | | **Producers Average** | **3.7%** | **6.3%** | **(17.6%)** | **(20.1%)** | | | **31.2%** | **$5,956** | |

*Source: FactSet, DCM*

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Dundee Capital Markets has provided investment banking services to HudBay Minerals Inc. in the past 12 months.

A Research Analyst/Associate involved in the preparation of this research report has visited certain material operations of the following issuer(s): HudBay Minerals Inc. David Charles and Patrick Racicot viewed HudBay Minerals' 777, Zinc Smelter, Lalor, Constancia; a site visit is discussed in note published July 12, 2013.

The Research Analyst/Associate and/or Dundee Capital Markets has been partially reimbursed for expenses or partial expenses were paid for by the following issuer(s) for travel to material operations of the issuer(s): HudBay Minerals Inc.

**Explanation of Recommendations and Risk Ratings**

**Dundee target:** represents the price target as required under IIROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Dundee target N/A: a price target and/or NAV is not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

**Recommendations**: BUY: Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. NEUTRAL: Total returns expected to be in line with the overall market. SELL:

Total returns expected to be materially lower than the overall market. TENDER: The analyst recommends tendering shares to a formal tender offer. UNDER REVIEW: The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**Risk Ratings**: risk assessment is defined as Medium, High, Speculative or Venture. Medium: securities with reasonable liquidity and volatility similar to the market. High: securities with poor liquidity or high volatility. Speculative: where the company's business and/or financial risk is high and is difficult to value. Venture: an early stage company where the business and/or financial risk is high, and there are limited financial metrics upon which to base a reasonable valuation.

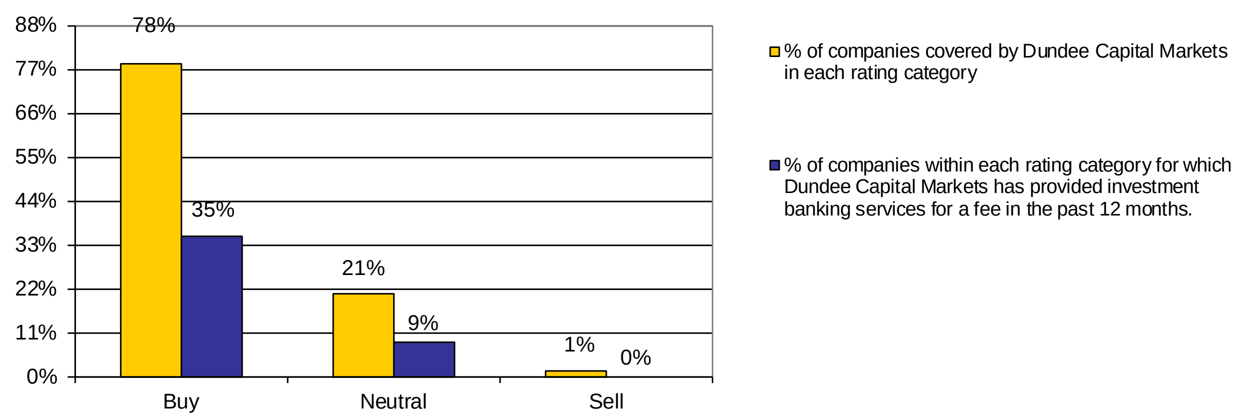
Investors should not deem the risk ratings to be a comprehensive account of all of the risks of a security. Investors are directed to read Dundee Capital Markets Research reports that contain a discussion of risks which is not meant to be a comprehensive account of all the risks. Investors are directed to read issuer filings which contain a discussion of risk factors specific to the company's business.

Medium and High Risk Ratings Methodology: Medium and High risk ratings are derived using a predetermined methodology based on liquidity and volatility. Analysts will have the discretion to raise but not lower the risk rating if it is deemed a higher risk rating is warranted. Risk in relation to forecasted price volatility is only one method of assessing the risk of a security and actual risk ratings could differ.

Securities with poor liquidity or high volatility are considered to be High risk. Liquidity and volatility are measured using the following methodology: a) Price Test: All securities with a price <= $3.00 per share are considered high risk for the purpose of this test. b) Liquidity Test: This is a two-tiered calculation that looks at the market capitalization and trading volumes of a company. Smaller capitalization stocks (<$300MM) are assumed to have less liquidity, and are, therefore, more subject to price volatility. In order to avoid discriminating against smaller cap equities that have higher trading volumes, the risk rating will consider 12 month average trading volumes and if a company has traded >70% of its total shares outstanding it will be considered a liquid stock for the purpose of this test. c) Volatility Test: In this two step process, a stock's volatility and beta are compared against the diversified equity benchmark. Canadian equities are compared against the TSX while U.S. equities are compared against the S&P 500. Generally, if the volatility of a stock is 20% greater than its benchmark and the beta of the stock is higher than its sector beta, then the security will be considered a high risk security. Otherwise, the security will be deemed to be a medium risk security. Periodically, the equity risk ratings will be compared to downside risk metrics such as Value at Risk and Semi-Variance and appropriate adjustments may be made. All models used for assessing risk incorporate some element of subjectivity.

**SECURITY ABBREVIATIONS**: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Dundee Capital Markets Equity Research Ratings**




*As at June 30, 2013*

*Source: Dundee Capital Markets*