HAYWOOD SECURITIES INC. CAPITAL MARKETS

# RESEARCH REPORT

# Altius Minerals Corp. (ALS-T, $7.25)

*Monday, June 23, 2008*

**David Beasley (416-507-2710, dbeasley@haywood.com)**

| | |
|---|---|
| **Rating:** | **SECTOR OUTPERFORM** |
| **Revised Target Price:** | **(-$27.50) $8.50** |
| **Return:** | **17.2%** |
| **YTD Performance:** | **-74.8%** |
| **Risk Profile:** | **SPECULATIVE** |

Despite the compelling fundamentals of the refinery project, the SNC suit has likely severely impaired NLRC's negotiating position. Given the uncertainty, we have removed the equity and royalty components of the project from our valuation.

## *Damage Caused by SNC Suit Likely Irreparable*

**Event:** Altius' subsidiary Newfoundland and Labrador Refining Corporation (NLRC) was forced to seek a stay of proceedings against creditors after engineering contractor SNC Lavalin (SNC) moved to have the subsidiary declared bankrupt.

**Impact – Negative:** NLRC project valuation made up over 80% of our previous valuation, but if it goes into receivership Altius would likely miss participating in the upside of the project.

**Highlights:**

- **How did this develop from disputed billings to bankruptcy proceedings?** Although NLRC successfully negotiated delayed work timelines with other contractors and licensors, it appears that SNC continued to bill at a full project run rate which NLRC disputed. The billed amount likely exceeded NLRC's capacity to pay without further investment by Altius and its partners since much of the $22.1 million Altius invested would have been depleted in prior months, and the proceeds of the $30.1 million loan had been paid to IJK. Although figures were not disclosed, recall from the November 2, 2007 prospectus that $72 million was budgeted to be spent on engineering services and over $220 million total in following 12 months before the slowdown.
- **Why didn't Altius bail out NLRC to save half of its market value?** As of the most recent quarter, Altius had $167 million in cash which begs the question: why wouldn't Altius simply fund NLRC's payment to SNC and save shareholders from losing half of the market value? Firstly, such a settlement would likely not guarantee that SNC would not continue to bill at full rates which might obligate NLRC to over $30 million more for engineering work into the fall. Also, it could motivate other contractors to move to resume full contract billings with NLRC, possibly requiring hundreds of millions of dollars in the near term. Alternatively, if Altius had side-stepped the process altogether and selectively paid off an individual creditor; it might have exposed itself to recourse from the other vendors.

**Valuation:** We are removing our NPV estimates for the NLRC equity and royalty from our valuation in light of the bankruptcy proceedings. Our revised target price of $8.50 does not include current projects under development at this time as we believe the Company's credibility in the market has been significantly damaged, thus it will not likely receive credit for speculative assets until sentiment improves.

**Catalysts:** 1) *Granted stay of proceedings and successful restructuring of NLRC* 2) *Tangible developments for the Company's projects*

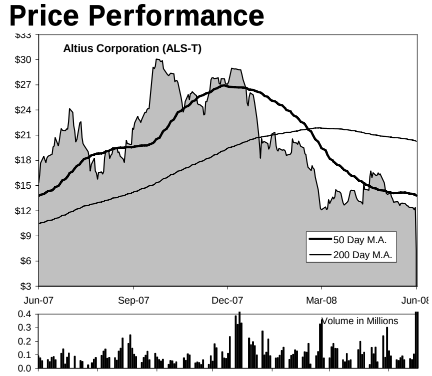
| | |
|---|---|
| **Forecast Risk** | **Moderate** |
| **Financial Risk** | **Moderate** |
| **Valuation Risk** | **High** |
| **Political Risk** | **Moderate** |
| 52-Week High / Low | 30.40/7.64 |
| Shares O/S | 30.9 (basic pro forma) 31.4 (F/D) |
| Market Capitalization | $224 million |
| Daily Volume | 181,718 |

**Company Profile – www.altiusminerals.com**
Altius is an early stage resource-project equity sponsor focused primarily on resource opportunities in Newfoundland and Labrador.
**Company CEO** – Brian F. Dalton

**Revisions, Date of Record**
Rating - Unchanged.
Target – Lowered to $8.50 from $36 June 23, 2008

| April Year-end ('000) | 2005 | 2006 | 2007 | 2008E |
|---|---|---|---|---|
| Cash | $39,125 | $35,332 | $114,284 | $168,007 |
| Working Capital | $38,509 | $33,903 | $98,324 | $168,640 |
| Debt | $0 | $0 | $36,557 | $37,726 |
| Shareholders Equity | $22,737 | $60,177 | $113,842 | $115,184 |

## Price Performance




Source: Bloomberg

*Please see rating structure, important disclosure, risk profile parameters, disclaimers, and notes on pages 5 to 8 of this report.*

MEMBER CIPF

## Investment Thesis

2008 has brought a violent reversal in the value of Altius shares as the seizure in the North American debt markets resulted in a delay in funding the project. This in turn led to the lawsuit brought by SNC Lavalin which applied to have NLRC declared bankrupt. Even if NLRC does survive this lawsuit, we believe Altius shareholders will likely realize much less value from NLRC than we had originally anticipated since the Company's negotiating leverage has been severely weakened. Despite Altius' generative team's ability to find and sponsor meaningful projects, including the recently announced iron ore and potash prospects, we believe market credibility has been damaged and the Company may not get much credit for pre-marketable development projects in the near term. In light of the bankruptcy proceedings for NLRC we have removed our estimates of the equity and royalty components in our valuation of Altius shares.

## Questions Abound

***How did this occur?***

From what we understand, SNC Lavalin (SNC) applied to have NLRC declared bankrupt after NLRC disputed and refused to pay certain billings for engineering and environmental work. The Company had successfully negotiated to delay work timelines with other contractors and licensors to align with the delay in the project's financing. However, it appears that SNC did not reduce its work schedule accordingly. As a result, NLRC was billed more than management believed it owed and likely more than the subsidiary could pay without further investment by its shareholders. Although figures were not disclosed, recall from the November 2, 2007 prospectus that $72 million was budgeted to be spent on engineering services and over $220 million total in the subsequent 12 months. It is likely the billed amount exceeded NLRC's capacity since much of the $22.1 million Altius invested would have been depleted in prior months, and the proceeds of the $30.1 million convertible loan had been paid to IJK in the form of a milestone payment for long-lead steel items.

***Why didn't Altius bail out NLRC in order to save half of its market value?***

As of the most recent quarter, Altius had $167 million in cash on its balance sheet which begs the question: why wouldn't Altius simply fund NLRC's payment to SNC and save shareholders from having their investments in the Company cut in half on Friday? We believe that such a settlement would likely not guarantee SNC would not continue to bill on a full work schedule which might obligate NLRC to over $30 million more for engineering work into the fall based on the prospectus budget. Also, the acquiescence could motivate other contractors to move to resume similar full contract billings with NLRC, possibly requiring hundreds of millions of dollars in the near term. Alternatively, if Altius had side-stepped the process altogether and selectively paid off SNC in order to keep the matter out of the courts; Altius might have exposed itself to recourse from the other vendors, which might put it at risk of litigation.

***Why would SNC Lavalin take such action and threaten a long term relationship?***

The actions seem to go against reason if SNC did in fact risk significant engineering revenues as well as long term service contracts for the sake of the disputed charges which may inevitably be difficult to recoup given the lack of hard assets in NLRC. The value of the entire expected billings for the year was likely well below 1% of the Company's $10.6 billion backlog. One can speculate many scenarios. Perhaps, SNC is tightening credit policies. A brief look at receivables turnover and days sales outstanding (DSO) show worsening efficiency every year from 2002 through the end of the most recent fiscal year in 2007, although one could argue this follows cyclical patterns. The conspiracy minded might find ulterior motives for the action given the attractiveness of the project, but this would not be in line with Company's core competencies. A more practical explanation likely lies in the relevant size of the two companies and the corresponding difference in bargaining power between the two. Regardless of the reasons, it is clear that the application to have NLRC declared bankrupt has caused irreparable damage to the negotiating leverage of the Company and value to Altius shares.

### *What happens next?*

Court proceedings are likely to start in the next few days and could proceed over the next several weeks. Though we are in no way qualified to provide legal opinion, we point to a few factors that suggest NLRC may be successful in its petition to stay the proceedings so that it may restructure. One of these factors is the financial depth of the Company's four primary shareholders including Altius, Dermott Desmond, Harry Dobson, and Stephen Posford. Secondly, Altius itself is a major secured creditor of NLRC having loaned the subsidiary over $30 million through a secured convertible debenture. It is likely the courts would also consider the optimal outcome for all creditors which might prevent SNC from moving the Company into receivership.

## Valuation

Given the uncertainty regarding the fate of NLRC as a result of the bankruptcy proceedings initiated by SNC Lavalin, we are removing our estimates for the value of the equity and royalty components of the project from our valuation of Altius shares. If NLRC is able to attain a stay in the proceedings and successfully restructure, we believe the fundamentals of the project will likely drive its development. However, with the considerable damage done to the bargaining position of the original shareholders, we believe terms of any deal will be at a deep discount than what would have been achievable under normal circumstances and adequately functioning debt markets. Therefore, our revised target price assumes Altius recoups its secured demand loan in the subsidiary, but does not include any of the equity or royalty components. Also, since the Company's credibility in the market has likely suffered as a result of these events, our base case valuation includes only visible tangible assets. Therefore, we estimate the value of Altius shares at $8.50 but note that exploration success and several projects currently in early stages in development, such as the Labrador iron ore project now undergoing drilling, which could have a meaningful impact over time have been excluded.

| Estimated Net Tangible Asset Value | 31-Jan-08 ('000) | per share |
|---|---|---|
| Liquid Assets | | |
| Cash and equivalents | 167,703 | 5.34 |
| Investments | | |
| RAB-V equity* | 12,000 | 0.38 |
| Estimated PV of AXU-T sold forward** | 37,346 | 1.19 |
| Other porfolio investments | 15,308 | 0.49 |
| Other assets | | |
| 0.3% NSR on Vale Inco's Voisey's Bay project*** | | 1.58 |
| NLRC equity - book value | 22,165 | N/A |
| NLRC convertible debt | 30,093 | 0.96 |
| NLRC equity - NPV of project equity | N/A | N/A |
| NLRC gross refining margin royalty | N/A | N/A |
| Total assets | | 9.94 |
| Liabilities | | |
| Long-term debt | 37,726 | 1.20 |
| Future income taxes | 7,639 | 0.24 |
| Net | | 8.49 |

*12 million shares

**2.5 million shares sold forward at $17.72 settling December 2011, PV5%

***Valued at 17.0x 2008E CF in line with Haywood valuation for IRC-T and peer average

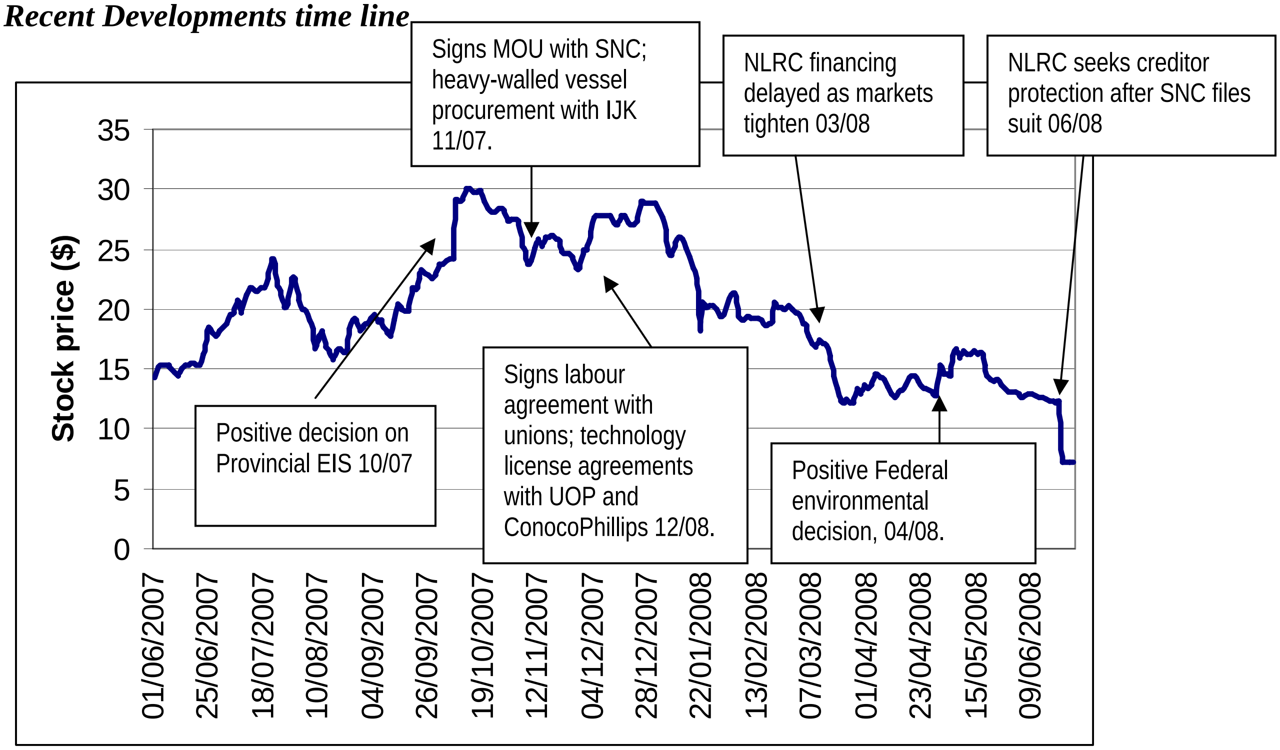
Source: Company filings and Haywood Securities

# Appendix: Timeline of Progress of the NLRC Project

Despite the uncertainty with respect to its value in Altius shares, the outlook for the NLRC project itself continues to demonstrate exceptional fundamentals. Below, we review the progress of the project.

- Core team: Project initiated with partners Altius Minerals Corp, Harry Dobson, Dermott Desmond, and Stephen Posford. Kjell Rustad (former project manager of Hibernia) is brought on as Project manager, James Smith (former head of CERA downstream) is brought on as VP Commercial.
- December 2006: successful economic and technical feasibility
- October 2007: Environmental Impact Statement approved by province
- November 2007: MOU signed with SNC Lavalin for engineering, procurement, construction, and management (EPCM) services.
- November 2007: signs agreement with IJK consortium to procure heavy-walled steel vessels.
- December 2007: Labour contracts signed, locking in wage levels in line with feasibility study.
- December 2007: Technology license agreements with UOP (division of Honeywell) and ConocoPhillips.
- March 2008: NLRC update includes likelihood of funding delay.
- April 2008: Federal environmental approvals received
- SNC files a lawsuit applying to have NLRC deemed bankrupt.
  - CASE PENDING: Notice of Intention to Make a Proposal filed.

***Recent Developments time line***




Source: Haywood Securities

## Distribution

This report may only be distributed to non-institutional US clients in the following states: Alaska, Arkansas, Arizona, Colorado, District of Columbia, Delaware, Florida, Georgia, Hawaii, Iowa, Idaho, Indiana, Kansas, Louisiana, Massachusetts, Maryland, Maine, Minnesota, Missouri, Mississippi, Montana, North Carolina, Nebraska, New Jersey, Nevada, New York, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Virgin Islands, Vermont, Washington, and Wyoming.

## Analyst Certification

I, David Beasley, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

## Important Disclosures

This report is prepared by Haywood Securities Inc. for use by Haywood Securities Inc., Haywood Securities (USA) Inc. and Haywood Securities (UK) Limited and their clients. Haywood Securities Inc. is a Canadian broker-dealer and a member of the Toronto Stock Exchange and the Canadian Venture Exchange. Haywood Securities (USA) Inc. is a wholly owned subsidiary of Haywood Securities Inc., registered with the U.S. Securities and Exchange Commission, and is a member of FINRA and the Securities Investor Protection Corporation (SIPC).

Haywood Securities, Inc., and Haywood Securities (USA) Inc. do have officers in common however, none of those common officers affect or control the ratings given a specific issuer or which issuer will be the subject of Research coverage. In addition, the firm does maintain and enforce written policies and procedures reasonably designed to prevent influence on the activities of affiliated analysts.

Haywood analysts are salaried employees who may receive a performance bonus that may be derived, in part, from corporate finance income.

**Of the companies included in the report the following Important Disclosures apply:**

- The Analyst(s) preparing this report (or a member of the Analysts' households) have a financial interest in Altius Minerals Corp. (ALS-T).
- As of the end of the month immediately preceding this publication either Haywood Securities, Inc., its officers or directors beneficially owned 1% or more of Altius Minerals Corp. (ALS-T).
- Haywood Securities, Inc. has reviewed lead projects of Altius Minerals Corp. (ALS-T) and a portion of the expenses for this travel have been reimbursed by the issuer.
- Haywood Securities, Inc. or an Affiliate has managed or co-managed a public offering of securities for Altius Minerals Corp. (ALS-T) in the last 12 months.

Other material conflict of interest of the research analyst of which the research analyst or member knows or has reason to know at the time of publication or at the time of public appearance:

- n/a

## Rating Structure

**SECTOR OUTPERFORM** – Haywood's top rating category. The analyst believes that the security will outperform its sector. Furthermore, the shares are forecast to provide attractive returns measured against alternative investments when considering risk profiles. The rating carries a minimum total return threshold of 15% for equities and 12% for trusts. The rating applies to companies that have tangible underlying assets that give a measure of support to the market valuation. The rating category considers both the absolute and relative values in assigning the highest rating on the security.

**SECTOR PERFORM** – The analyst believes that the security will trade with tight correlation to its underlying sector. Furthermore, the target price (together with any anticipated distributions) is at or above the market price, and forecast risk-adjusted returns are attractive relative to alternative investments.

**SECTOR UNDERPERFORM** – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to underperform relative to their sector. The category also represents stocks with unattractive forecast returns relative to alternative investments.

**TENDER –** The analyst is recommending that investors tender to a specific offering for the company's stock.

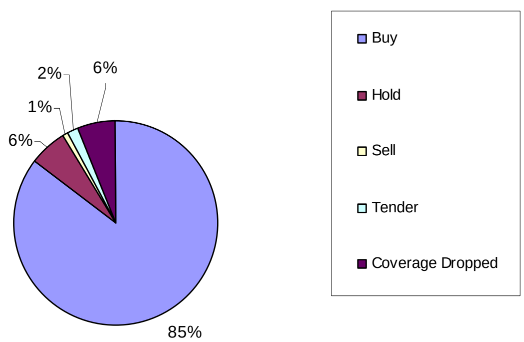
**RESEARCH COMMENT** – An analyst comment about an issuer event that does not include a rating.

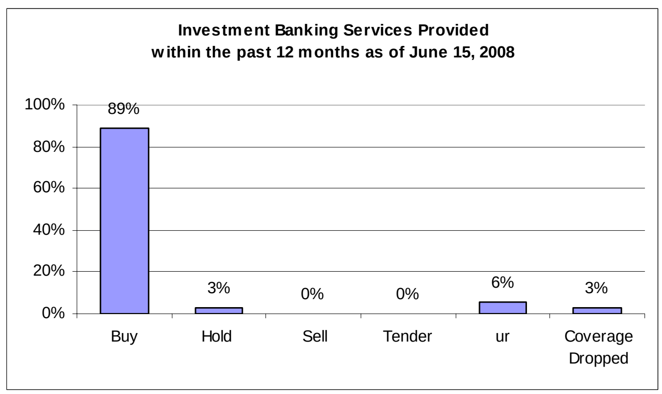
**COVERAGE DROPPED** – Haywood Securities will no longer cover the issuer. Haywood will provide notice to clients whenever coverage of an issuer is discontinued. The termination of coverage will not occur unless clients have been provided with advice relating to positions they may still hold, such as a recommendation to sell their securities.

The above ratings are determined by the analyst at the time of publication. On occasion, total returns may fall outside of the ranges due to market price movements and/or short term volatility. At the discretion of Haywood's Management, these deviations may be permitted after careful consideration

** Haywood's current rating structure (outlined above) does not correlate to the 3-tiered BUY, HOLD, SELL structure required by the FINRA. Our ratings of Sector Outperform, Sector Perform and Sector Underperform most closely correspond to Buy, Hold/Neutral and Sell respectively however, as described above, our assigned ratings take into account the relevant sector.*

**Rating Distribution March 15, 2008 - June 15, 2008**




For further information on Haywood Securities' research dissemination policies, please visit: http://www.haywood.com/research_dissemination.asp

## Risk Profile Parameters

**SPECULATIVE:** – Investment for risk accounts only. Companies within this category carry greater financial and/or execution risk. All junior/venture companies that carry great financial and/or liquidity risk will be tagged "SPECULATIVE". A stock indicating a SPECULATIVE risk is determined from sector specific criteria outlined below listed below.

## Risk Profile Parameters – Oil and Gas Sector

**Forecast Risk:** *High* – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Limited hedging increases commodity risk beyond peers. To raise expectations requires higher commodity prices or production that is ahead of guidance. *Moderate* – Haywood forecasts are generally in line with guidance. The Company has a history of meeting or exceeding guidance. Forecasts are consistent with current commodity pricing and production guidance. Hedging practices are in line with peers. *Low* – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance. Forecasts allow for modestly lower commodity pricing or production levels. Commodity hedging lowers volatility relative to peers.

**Financial Risk:** *High* – The capital expenditure program in the current year or the next year of the forecast is not fully funded but requires additional debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. *Moderate* – The capital expenditure program in the current year or the next year is fully funded with cash flow and limited debt. *Low* – The capital expenditure program in the current year or the next year is fully funded with cash flow and no new debt.

**Political Risk:** *High* – Properties are located in an area with limited petroleum industry activity or infrastructure. An environment unfriendly to the industry makes obtaining permits to drill or produce hydrocarbons challenging. Significant government or local opposition exists. *Moderate* – Properties are located in an area with minimal petroleum industry activity or infrastructure. An environment friendly to the industry makes obtaining permits relatively straightforward. All levels of government are considered indifferent to hydrocarbon activity. *Low* – Properties are located in an area with established petroleum exploration and development activity. Oil and gas Production Sharing Agreements or Exploration Permits are in hand. Government at all levels supports the sector.

**Valuation Risk:** *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects continued production growth and/or continuing strong commodity prices or further appreciation. Where applicable, the market capitalization exceeds the NAV by more than 30%. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable production growth and/or commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by 15% to 30%. *Low* – The current valuation is at the low end of historic ranges and/or at a discount to peer valuations. The valuation reflects limited production growth and/or no commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by less than 15% or falls below the capitalization.

## Risk Profile Parameters – Mining and Minerals Sector

**Forecast Risk:** *High* – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Limited hedging increases commodity leverage. Forecasts reflect higher commodity prices or production relative to guidance. *Moderate* – Haywood forecasts are generally in line with guidance. The Company has a history of meeting or exceeding guidance. Forecasts are consistent with current commodity pricing and production guidance. Hedging is in line with peers. *Low* – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance. Forecasts allow for modestly lower commodity pricing or production levels. Commodity hedging lowers volatility relative to peers.

**Financial Risk:** *High* – The business plan is not fully funded, but requires debt and/or equity financing. The exploration program is funded for two years or less. This categorization does not predict whether the additional funds will be raised. *Moderate* – The development plan is fully funded, with the exploration program funded for three years or more. The Company's debt is rated below investment grade. *Low* – The Company is fully funded. Its debt is rated investment grade and/or the Company has a history of profitability or dividend payments in each of the last three years.

**Valuation Risk:** *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects considerable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the DCF evaluation by more than 50%. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by 15% to 50%. *Low* – The current valuation is at the low end of historic ranges and at a discount to peer valuations. The valuation reflects limited new exploration success and no commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by less than 15% or falls below the current market value.

**Political Risk:** *High* – Currently no industry activity or infrastructure exists. Government opposition is significant. Obtaining permits is challenging. *Moderate* – Industry activity or infrastructure is minimal. Government at national, regional, and local levels is indifferent. Obtaining permits is relatively straightforward. *Low* – Industry activity and infrastructure exist. Government is supportive. Obtaining permits is facilitated.

## Risk Profile Parameters – Technology/Special Situations

**Forecast Risk:** *High* – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Sales are minimally visible. *Moderate* – Haywood forecasts are generally in line with guidance and sales are moderately visible. The Company has a history of meeting or exceeding guidance. *Low* – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance and its sales are highly visible.

**Financial Risk:** *High* – The business plan is not fully funded but requires debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. Inventory turnover is low, cash flow is weak, and assets are below par. *Moderate* – The business plan is fully funded. Inventory turnover and cash flow are moderate, and assets are reasonably liquid. The Company's debt is rated below investment grade. *Low* – The Company is fully funded with investment grade debt, high inventory turnover, high cash flow, and superior assets.

**Valuation Risk:** *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. Where applicable, the DCF valuation is not more than 10% above the current equity valuation. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. Where applicable, the DCF valuation exceeds the current capitalization by more than 10%. *Low* – The current valuation is at the low end of historic ranges and at a discount to peer valuations. Where applicable, the DCF valuation exceeds the current capitalization by more than 20%.

## Disclaimers