Altius Minerals Corp. (ALS-T, $25.25)

Wednesday, November 14, 2007

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Rating:	**SECTOR OUTPERFORM**
Revised Target Price:	**(+$4.00) $41.00**
Return:	**62.4%**
YTD Performance:	**141%**
Risk Profile:	**SPECULATIVE**

We believe the recent weakness in ALS shares was due to a lack of understanding of the Company in the broader market. We continue to see significant upside based on the high probability of success of the NL Refining Corp. project.

A Bigger Piece of the Refinery Pie: Reiterating Buy Opportunity

Event: We are updating our coverage and valuation of Altius Minerals following closing of the Company's recent financing.

Impact - Positive: Proceeds of the financing will be used to fund a larger equity stake in NLRC. Our analysis suggests this is accretive by $4 per share.

- **Target Price –** We are moving our target price up to $41 from $37 to reflect Altius' increasing stake in NLRC.

Highlights:

- **Increased stake in NLRC means less dilution later, target increased by $4** With Altius expected equity funding of NLRC, the Company will be able to take its stake in the refining subsidiary up to 51% from 37%. Though we expect future private equity rounds to dilute this somewhat, we see a net increase in value per ALS share of $4, driving our target price increase to $41.
- **Valuation is conservative, upside exists at L.R. WTI above $50 per barrel** We emphasize that our base case is conservative, with our spread assumptions in line with long run $50 WTI crude. For each dollar per barrel in the heavy/sour differential and/or product spreads, our valuation would increase by approximately $5 per ALS share.
- **Continue to Favour High Complexity Refining Theme** Global tightness in refinery capacity is expected to continue, and high complexity refiners are expected to benefit most. Global valuations are proving the market's interest in the theme as key NLRC developments unfold.

Valuation: Our sum-of-parts valuation estimates a marketable asset value of over $10 per share. We calculate an NPV valuation for Altius' post-dilution equity stake in NLRC of over $26 per share and a conservative estimate of its refinery margin royalty of $10 per share. The result provides us with a tax-adjusted forecasted NAV for Altius shares of $41.

Catalysts: 1) *Acceptance of comprehensive study report by Transport Canada and Fisheries and Oceans Canada* 2) *Commercial agreements on feedstock supply and product off take;* 3) *Favourable terms on EPC Contract..*

Investment Brief: *We believe Altius shares provide an excellent opportunity to participate in Newfoundland and Labrador resource opportunities with a management team who has a proven record of creating shareholder value.*

Forecast Risk	**Moderate**
Financial Risk	**Low**
Valuation Risk	**High**
Political Risk	**Moderate**
52-Week High / Low	30.40/7.64
Shares O/S	31.2 (basic pro forma) 32.4 (F/D)
Market Capitalization	$787M
Daily Volume	190,110

April Year-end ('000)	2005	2006	2007	2008E
Cash	$39,125	$35,332	$114,284	$126,035
Working Capital	$38,509	$33,903	$98,324	$110,075
Debt	$0	$0	$36,557	$36,557
Shareholders Equity	$22,737	$60,177	$113,842	$115,700

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

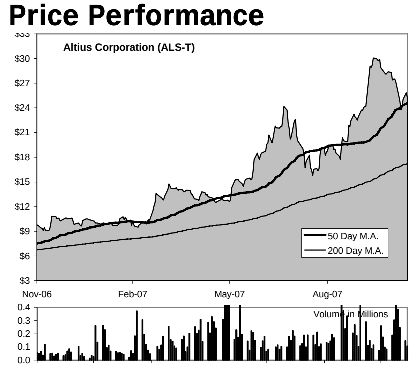
Company CEO – Brian F. Dalton

Revisions, Date of Record

Rating – Sector Outperform since initiating coverage March 12, 2007.

Target – Increased from $37 to $41, November 14, 2007.

Price Performance



Source: Bloomberg

Investment Thesis

We view Altius as a venture capital sponsor with an exceptional management team that consistently creates value for shareholders. Led by Brian Dalton, this team has delivered a 5-year compound annual growth rate (CAGR) of over 80% in the share price since 2002, and a 140% return this year alone. We see Newfoundland and Labrador continuing to grow as an important resource-rich economy, and suggest Altius Minerals as an ideal vehicle through which to participate in this theme.

Funding an Increased Stake in NLRC Now Means Less Dilution Later

After closing the recent equity financing, Altius is now in position to increase its investment in Newfoundland and Labrador Refining Corporation (NLRC). The Company has been authorized to subscribe for additional treasury shares of the subsidiary, potentially taking its interest up to 51% from 37% currently at a cost of $100 million.

We estimate this is a highly accretive investment as the private equity cost of the investment translates into a value for NLRC in the order of $450 million. Our analysis of the project as a future public entity calculates the potential value of the equity of NLRC near $6B.

The investment is earmarked to fund the project over the next several months. Given the Company's funding requirements, we assume the injection of capital will be employed within the first half of the year, likely accompanied by another private round during 2008 as well as debt. However, as NLRC developments unfold over the coming months we expect to see future rounds at considerably higher valuations. For example, key developments such as expected commercial agreements and engineering, procurement and construction contracts, would strengthen the projects timelines and should increase interest in participation in the project. If we project 2008 funding to return an IRR to equity sponsors of 50%, then the valuation possible for NLRC at that stage of funding would provide adequate funding to meet explicit requirements while allowing Altius to maintain a 47.2% stake.

Table 1: ALS Pro Forma Ownership of NLRC After Third Party Private Equity Funding

NLRC Share Structure and ALS Ownership	
Current Total Outstanding	16,660,827
Altius' Current Ownership	6,138,769
% of outstanding	36.8%
Treasury Issue to ALS	4,812,762
Pro Forma Total after ALS Issue	21,473,589
ALS Pro Forma Ownership after Issue	10,951,531
% of ownership	51.0%
Estimated 3rd Party Private Equity	1,726,667
Pro Forma Total Shares after P.E.	23,200,256
Altius Pro Forma Ownership Pre-IPO	47.2%

Source: Company filings and Haywood Securities

Though this is a rather simplified case as we would expect multiple rounds of equity financing and debt layered in over time, we believe it provides a reasonable starting point. We know Altius management emphasizes minimizing dilution and that carries over to their stake in NLRC.

In our base case NPV at a 15% discount rate, we estimate that the pre-IPO position of 47.2% would be diluted to an interest in the public entity of around 13.6% and worth over $26 per ALS share

Table 2: Estimated Value of NLRC per ALS Share

Pre-dilution Stake in Private NLRC	47.2%	
NPV to Founding Partners		
after financing participants NPV 15%	1,735.5	USD(M)
Altius stake at CAD/USD = 1.00	819.2	CAD(M)
Per ALS Share	26.25	
Estimated post-dilution stake in public NLRC	13.6%	

Source: Haywood Securities

Therefore, after accounting for dilution in the value of existing financial assets, **we estimate an increase in ALS shares of approximately $4, resulting in an increase in our target price to $41 from $37**.

Table 3: Altius Sum of Parts Value

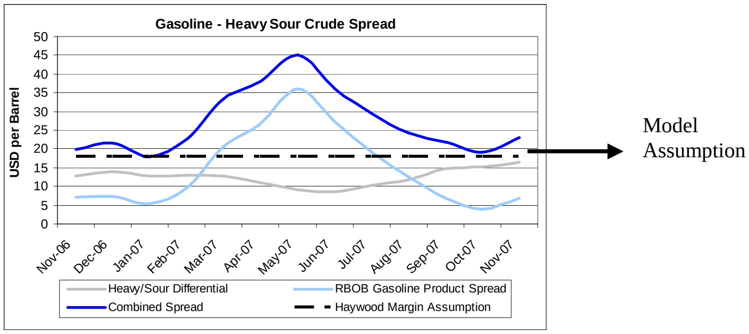
Asset	Value per ALS Share Including NLRC
NLRC (Oil Refinery Project) Current 37% Equity Interest	$26.25
NLRC Royalty	$10.35
Net Cash (Estimated after tax obligations)	$5.49
Voisey's Bay 0.3% Net Smelter Royalty	
Valued at 15.0x 2007E CF	$1.79
2.5 million share Equity Forward on AXU-T	$1.42
Equity Holdings	
Aurora Interest net of equity forward	$1.35
Rambler Metals and Mining Interest (RAB-V)	$0.43
Paragon Interest (PRG-V)	$0.10
Alba Mineral Resources PLC Interest (ALBA-LN)	$0.00
Anticipated further investment in NLRC	$(3.20)
Total Value of Holdings	$43.97
Adjust for potential tax consequences	$41.15

Source: Company filings and Haywood Securities

Valuation Conservative, Considerable Upside Remains

We maintain a conservative approach to our valuation of NLRC, including an assumption for combined heavy/sour and refined product spread that matches the floor of the recent seasonal low as illustrated in the chart below.

Figure 1: Margin Assumptions at Low End of Recent Spreads



Source: Valero Energy (Platts and OPIS data) and Haywood Securities

Note that this $18 combined spread generally corresponds to WTI of $50 per barrel on average. As we examine a sensitivity of these margins on valuation, we see considerable leverage to $1 upside potential in the value of ALS shares.

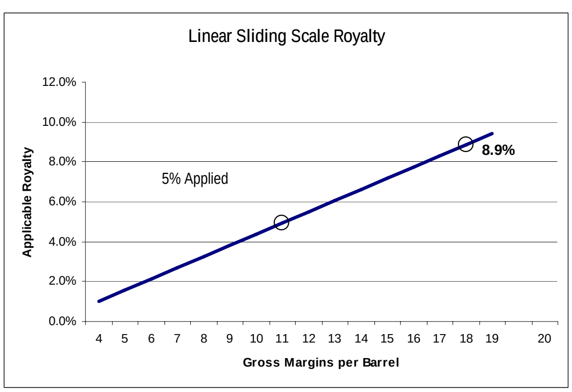
Table 4: ALS Valuation Sensitivity to $1 Change in Margin Assumption

	Combined Spread per Barrel						
	$16	$17	$18	$19	$20	$21	$22
Refinery Valuation per ALS share	**$16.53**	**$21.39**	**$26.25**	**$31.11**	**$35.97**	**$40.83**	**$45.69**
5% Royalty	$9.20	$9.77	$10.35	$10.92	$11.50	$12.07	$12.65
Total Holdings Value per ALS Shr	$33.10	$38.53	$43.97	$49.40	$54.84	$60.27	$65.71
Adjusted Value of ALS shares	**$31.26**	**$36.20**	**$41.15**	**$46.10**	**$51.05**	**$56.00**	**$60.95**
ALS post-dilution stake	*10.2%*	*12.0%*	*13.5%*	*14.9%*	*16.0%*	*17.0%*	*17.8%*
	←	Downside	Base Case Target Price	Upside →			

Source: Haywood Securities

Furthermore, we have continued to discount the refining royalty, pegging it at 5% versus its more likely 8.9% based on $18 spreads and a linear sliding scale. If private equity and debt sponsors participate over the coming quarters without compromise to the royalty, we would adjust our discount in order to include the full base case value near $18 versus $10 on a risk-adjusted basis.

Figure 2: Refining Margin Royalty on a Linear Scale



Source: Haywood Securities

Global Refining Theme Continues to Look Attractive

Recent comments by industry leaders, continued tightness in refining capacity, and the climbing valuation of an emerging high complexity global refinery project comparable to NLRC emboldens our favourable view of the refining theme.

On Valero Energy's recently reported third quarter, the Company commented that the outlook for the supply-demand balance in refining remains tight and that sour and heavy feedstock (used in NLRC's configuration) are showing more favourable discounts than in recent history. Furthermore, management has indicated that the market for refinery sales continues to be strong despite relatively low margins and high asset values.

As an explicit indicator of the global market's appetite for refinery valuations we present Reliance Petroleum on the Bombay stock exchange. This is a pure play refinery project of 580,000 barrels per day of capacity approximately twelve months away from production. The current share price of RPET-IN values the refinery at the equivalent of US$25 billion, or about $40,000 per barrel of capacity. This compares with US refineries trading at $12,000 to $20,000 per barrel of capacity, so it may be considered an outlier. However, for the level of complexity, the type of feedstock, and the value of product it is expected to produce, this refinery is very similar to that of the NLRC project than any of the existing US refinery configurations.

Within this context, we remind investors that NLRC is the first high complexity refinery to be built in North America since 1976, with access to both the US market, which is undersupplied by domestic producers by four million barrels a day, and the North Atlantic ocean which provides opportunities to participate in arbitrage on crude feedstock.

The recent funding of an increased stake in NLRC by Altius should minimize its dilution in the project as private and public funding takes place over time. As a result, we reiterate our recommendation of Altius as an extremely attractive play on the high complexity refinery theme.

Valuation

We estimate the value of Altius' cash, marketable securities, and producing assets at approximately $10 per share. After adjusting for the $100 million dollar expected investment in NLRC, we add the value of the Company's stake in the NLRC refinery project including the royalty on refining margins. This brings us to our target price of $41 per share.

Table 5: Summary of ALS Holdings

Holding	Description	Notes	Valuation Method	Value per Share
Current Asset Values				
Cash				
Estimate for tax-adjusted cash and short-term investments less LTD	Including cash raised on equity financing, October 2007	Adjusted for estimated capital gains taxes		$5.49
Royalties				
10% stake in Labrador Nickel Royalty Limited Partnership (LNRLP)	0.3% Net Smelter Return Royalty on the Voiseys Bay Nickel Company (CVRD Inco) project. Applicable to the entire region.	Assumptions for cash flow estimate based on Haywood price assumptions for nickel and copper of $19 and $2.75 in 2007 and $7 and $1.50 long term.	15.0x CY2008E CF. Compare to Haywood valuation multiple of 15x 2007E for IRC and Royal Gold's trading multiple of 24x	$1.79
2% Gross Sales Royalty on Aurora CMB Uranium project and 2% base metals	Attached to Aurora Energy - below		Pre-feasibility/pre-permitting project with little visibility: value not assigned	N/A
Public Market Securities				
Aurora Energy (AXU-T)	Central Mineral Belt uranium project in Labrador.	Original stake sold into the market on several occasions throughout 2006. We expect divesting to be ongoing.	*Market value of current holdings (~2.75M shares) plus 2.5 million shares sold forward*	$2.77
Rambler Metals and Mining (RAB-V) 12M shares	Consisting of a historic copper-gold project in Newfoundland.	Listed on TSX Venture Exchange February 7th, 2007.	Market Value	$0.43
Paragon Minerals Corporation (PGR-V) 17.4% equity interest	Paragon is a junior gold and base metals exploration company with several projects in Newfoundland.		Market Value	$0.10
Alba Mineral Resources PLC (ALBA-AIM) 1.9% equity interst	Alba is a base-metals exploration company in Europe		Market Value	$0.00
			TOTAL per ALS share	*$10.57*
Incremental Value of Refinery Asset				
Private Equity Interests				
37% Equity interest in Newfoundland and Labrador Refining Corporation (NLRC)	Currently in advanced engineering and permitting stage.	Financial Partners with European venture capitalists. Operating group has global experience with world class projects.	Net Present Value post dilution stake at return to equity finance participants of 15% IRR and 66% financial leverage.	$26.25
62% stake in a 1 - 10% Sliding scale royalty on gross refining margins of $4 - $20 per barrel	Attached to NLRC	With the potential for a high degree of debt financing we believe the royalty could remain in tact	Present value of royalty stream of 5% beginning in 2001 discounted at estimated WACC of 8.3%	$10.35
Intended increased investment in NLRC		Partially sourced from funds raised on financing, ALS treasury for balance	4,812,762 shares @ $20.78	$(3.20)
		TOTAL per ALS share		*$43.97*
		Adjusted for Potential Tax Consequences		*$41.15*

Source: Company Filings and Haywood Securities

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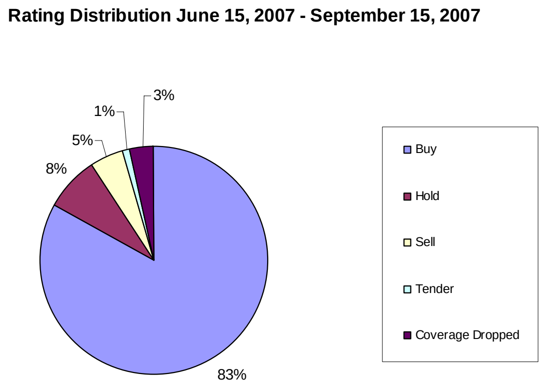

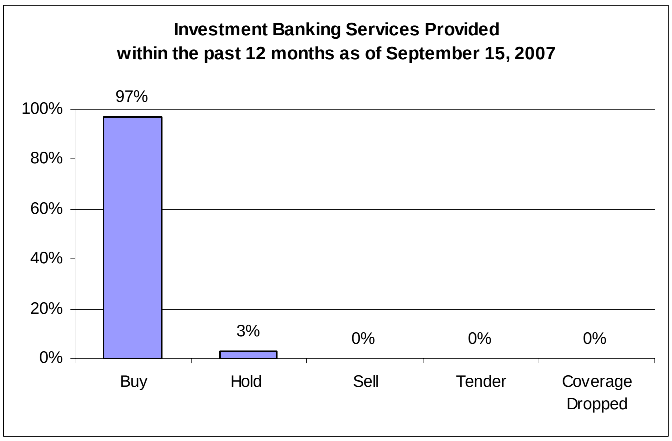

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Valuation Risk: *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects considerable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds 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.

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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%.

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