



Tuesday, July 27, 2010

## Mining News:

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### **AQM Copper Inc. (AQM-TSX.V)**

AQM Expands Zafranal Main Zone 200m to the East

**Mike Bandrowski (416) 343-3352**

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### **Hana Mining Limited (HMG-TSX.V)**

Initiating Coverage, Big Fat Banana

**Mike Bandrowski (416) 343-3352**

[mbandrowski@clarussecurities.com](mailto:mbandrowski@clarussecurities.com)

## Cleantech News:

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### **BIOX Corporation (BX-TSX)**

Q3/10 Preliminary Results – Decreasing Target Price (wire attached)

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## Special Situations News:

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### **EnWave Corporation (ENW-TSX.V)**

Nestlé R&D Agreement Announced

**Steven Gold, CFA (416) 343-2782**

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**AQM Copper Inc. (AQM-TSXV)**

AQM Expands Zafranal Main Zone 200m to the East

<b>AQM Copper Inc.</b>				<b>Mike Bandrowski</b>
Previous Close:	\$0.75			(416) 343-3352
<b>Recommendation:</b>	<b>NR</b>			
Market Cap (m)	\$74	52 Week High	\$1.10	
FYE	31-Mar	52 Week Low	\$0.54	

Yesterday, AQM Copper announced positive drill results from the Zafranal project located in the Southern Peru Porphyry Copper Belt. Three of the announced holes extend known copper mineralization further to the east and have increased the defined Main Zone to approximately 3000m long, as much as 600m wide and 50m to 150m plus in thickness. Additional results look to have defined the northern and western extent of the Main Zone. We expect the five pending drill holes to the east will continue to show additional potential of the Main Zone. We expect an initial NI 43-101 compliant resource estimate in early September 2010.

**Significant Results to East**

- Hole ZFDDH10-63 cut 172m of 0.66% Cu and 0.16g/t Au
- Hole ZFDDH10-66 cut 78m of 0.42% Cu and 0.05g/t Au
- Hole ZFDDH10-73 cut 163m of 0.36% Cu and 0.10g/t Au

Clarus Securities Inc.

**Hana Mining Limited (HMG-TSXV)**  
Initiating Coverage, Big Fat Banana

<b>Hana Mining Limited (HMG-TSXV)</b>				<b>Mike Bandrowski</b>	
Previous Close:	\$1.58				(416) 343-3352
<b>Recommendation:</b>	<b>BUY</b>		<b>12-Month Target:</b>		<b>\$3.25</b>
Potential Return	105.7%	52 Week High	\$2.57	FYE	31-Oct
Market Cap (m)	\$119	52 Week Low	\$0.30		

We believe the mining jurisdiction and exploration potential offer investors significant upside at current levels. Botswana is the premier African country to be operating in due to its mining history and mission to reduce its economic dependence on the diamond industry. Hana is advancing its Ghanzi Project at the perfect time to capitalize on the government's economic initiative as well as de-risk the Ghanzi project via Discovery Metals, Hana's neighbour that is developing the 3MM tpa Boseto Cu-Ag project.

**Highlights:**

**Second Mover** – Hana is advancing the Ghanzi Cu-Ag Project in the wake of Discovery Metals Boseto Cu-Ag project (est. Q4 2011 production). Trailing Discovery should de-risk the Ghanzi Cu-Ag Project as Discovery moves forward with the development process with the Botswana government.

**Just the Beginning** – Hana has outlined an impressive mineralized area with an estimated unfolded strike length of 600km and includes a NI 43-101 compliant mineral resource estimate of 3.9 billion lbs of copper and 62.1 million oz. of silver. Further drilling at the Banana Zone should produce a revised resource estimate by year end.

**Highly Undervalued** – Based on our Ghanzi project assumptions, a long-term copper price of US\$2.00/lb and a conservative 12% discount rate, we have calculated a NAV of \$3.28/sh.

Hana has defined a global resource of 3.93 billion lbs of Cu and 62 million oz. of Ag over four zones. With 9 drills on site and 11km of additional strike length already identified we expect the scope of the project to continue to expand. Copper also remains our preferred base metal at this time. Exchange stock levels, record low treatment and refining charges and significant investment in the copper industry suggest strong support for prices going forward. The risks facing Hana are typical of those facing a development mining company including financing risk and commodity price risk from copper and silver prices.

**Catalysts:**

- We expect Hana to complete a revised NI 43-101 compliant resource estimate by year end that should include additional drilling at the Banana Zone;
- Discovery Metals is scheduled to release a Bankable Feasibility study for the neighboring Boseto Cu-Ag project later this month, which could be very positive for the Ghanzi project;
- Hana expects to generate its initial preliminary economic assessment by year end. The PEA will include both the Banana Zone and Chalcocite Zone;
- Pre-feasibility Study, 2011;
- Bankable Feasibility Study, 2012.

We are initiating coverage with a **BUY** recommendation and a 12-month target price of **\$3.25** per share.

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Tuesday, July 27, 2010

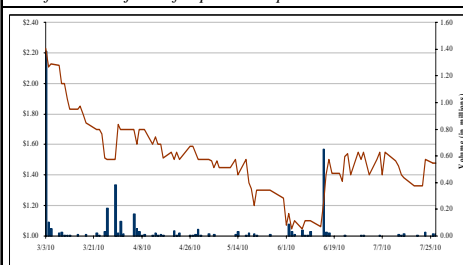
Estimates	2009A	2010E	2011E	2012E
Revenue (MM)	\$48.9	\$44.7	\$57.8	\$114.7
G.M (MM)	\$1.9	\$2.4	\$7.6	\$32.5
Gross Margin %	3.9%	5.4%	13.2%	28.3%
EBITDA (MM)	nmf	(\$3.4)	\$2.5	\$25.1
FD EPS	(\$0.26)	(\$0.46)	(\$0.08)	\$0.29

Valuation				
P/E	nmf	nmf	nmf	5.1x
EV/Revenue	1.6x	1.8x	1.4x	0.7x
EV/EBITDA	nmf	nmf	31.4x	3.2x

Quarterly Est.	Q1/10A	Q2/10A	Q3/10E	Q4/10E
Revenue (MM)	\$11.57	\$14.84	\$6.00	\$12.43
FD EPS	(\$0.05)	(\$0.20)	(\$0.12)	(\$0.10)
	Q1/11E	Q2/11E	Q3/11E	Q4/11E
Revenue (MM)	\$14.59	\$14.59	\$14.30	\$14.34
FD EPS	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.02)

Stock Data	
Market Open	\$1.48
Potential Return	68.9%
52 Week Price Range	\$1.05-\$2.40
Avg. Daily Vol. (3 mo.)	55,324
Shares Outstanding FD (MM)	48.3
Market Cap (MM)	\$71.5
adj. Net Debt (MM)*	\$7.5
Enterprise Value (MM)	\$79.0
Fiscal Year End	30-Sep

\* Proforma - Adjusted for plant II capex



Source: Capital IQ

#### Company Profile

BIOX Corporation is a biodiesel producer currently operating at 67 million liters per year facility. The Company has a proprietary, patented process for the production of the fuel. BIOX's competitive advantage relates to the Company's ability to produce biodiesel using multiple feedstocks including animal fats, vegetable oils and recycled oils. BIOX's target jurisdictions include Canada, the United States and the European Union.

## Q3/10 Preliminary Results – Decreasing Target Price

BIOX announced preliminary Q3/10 results which were impacted by the delay of the reinstatement of the U.S. federal excise tax incentive. The Company also announced that construction of Plant 2 might be delayed as BIOX awaits a resolution on its ecoEnergy application. While the quarterly results reflect uncertainties around the extension of the U.S tax credit, we believe BIOX's fundamentals remain intact.

### 1. Q3/10 Preliminary results

The Company expects sales of \$6.4 - \$6.7 million compared with our estimate of \$14 million and a net loss of \$6.0-\$6.3 million vs. \$2.3 million. Approximately half of the total volume produced was stockpiled to capture better pricing in Q4/10. Note that BIOX's total biodiesel for Q3/10 has been sold for delivery into Q4/10.

### 2. Pricing For Biodiesel Has Improved With Mandates

B100 pricing continues to improve as mandates in the U.S are implemented. This is also supported by an upward trend in the price of Renewable Identification Number (RIN) credits, which has doubled over the past month. RIN's are identifiers used to demonstrate compliance with the Renewable Fuel Standard mandate.

### 3. Construction of Plant 2 Likely Delayed

BIOX has deferred ordering of large capex lead items for Plant 2 as it waits for the outcome on its qualification for the EcoEnergy program. We understand BIOX has been shortlisted for the program along with seven other companies. Plant 2 is likely to qualify; however, the resolution might be delayed, causing a potential delay on cash flows from incentives monies.

### 4. Valuation – Decreasing Target Price

We have adjusted our estimates to reflect the quarterly update and a potential later commissioning date for Plant 2. We have delayed its start date by approximately six months. We are decreasing our target price to \$2.25 from \$2.50 per share previously, based on a 2012E EV/EBITDA multiple of 5.5x discounted back to 2010 at 10% (unchanged). Our **BUY** recommendation remains unchanged.

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**BIOX Q3/10 PRELIMINARY RESULTS**

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BIOX announced preliminary third quarter results, which were impacted by the delay of the reinstatement of the U.S. federal excise tax incentive. Official financial results will be released on Monday August 9, 2010.

**Preliminary Results**

- The Company expects Q3/10 sales of \$6.4 - \$6.7 million compared with our estimate of \$14 million. While the BIOX's production of 14.4 million litres was near full capacity (vs. 14.6 million litres expected), litres sold during the quarter were lower as the Company delayed sales into Q4/10. The delay was in order to generate higher revenue per litre sold with the inclusion of RIN's on these sales. Note BIOX's total biodiesel for Q3/10 has been sold for delivery into Q4/10;
- Net loss is expected to be between \$6.0 - \$6.3 million vs. our estimate of \$2.3 million loss. The loss includes a market-value write down of \$1.4 million calculated to exclude the US\$1/gallon related to the tax incentive that has not been reinstated. If the biodiesel tax incentive is reinstated, it will be applied retroactively and the Company's results will be adjusted;
- The Company continues to produce at or near target production levels.

**U.S. FEDERAL EXCISE TAX INCENTIVE AND RENEWABLE FUELS STANDARD**

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The biodiesel tax credit incentive expired on December 31, 2009. While it has been delayed on numerous occasions, legislators continue to indicate their goal to pass the legislation. BIOX's continues to be optimistic on a retroactive extension of the credit, however, it is taking a conservative approach on its near future re-instatement.

The Renewable Fuels Standard (RFS2) commenced on July 1, 2010. The program requires the use of 500 million gallons of biomass-based diesel fuel in 2009, increasing to 1 billion gallons in 2012. In June this year, the Environmental Protection Agency (EPA) proposed 2011 overall volumes and standards, including a minimum 800 million U.S. gallons of biomass-based diesel in U.S. diesel fuels. In July, BIOX's subsidiaries completed registrations with the EPA as a Foreign Renewable Fuel Generator and as a Renewable Fuel Importer and RIN Generator. The registration provides BIOX with access to the U.S. renewable fuels market.

**OPERATIONAL UPDATES**

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The Company is currently producing at full capacity and has leased short term storage capacity to provide additional flexibility.

- **EcoEnergy for Biofuels Program Update:** The Company submitted two applications to Natural Resources Canada for the inclusion of additional 67 million litre nameplate capacity production facility in the ecoENERGY for Biofuels Program. The Company received notice on June 17 from Natural Resources Canada that the Hamilton application had demonstrated an advanced state of readiness and the application will undergo a full merit-based assessment. The Company has not received notification for the status of the Montreal application.
- **Plant 2 Update:** The Company has deferred significant commitments on its plant 2 due to the various delays in the Natural Resources Canada decisions for the ecoENERGY for Biofuels Program and the uncertainty of the U.S. biodiesel tax credit. We understand BIOX has been shortlisted for the program along

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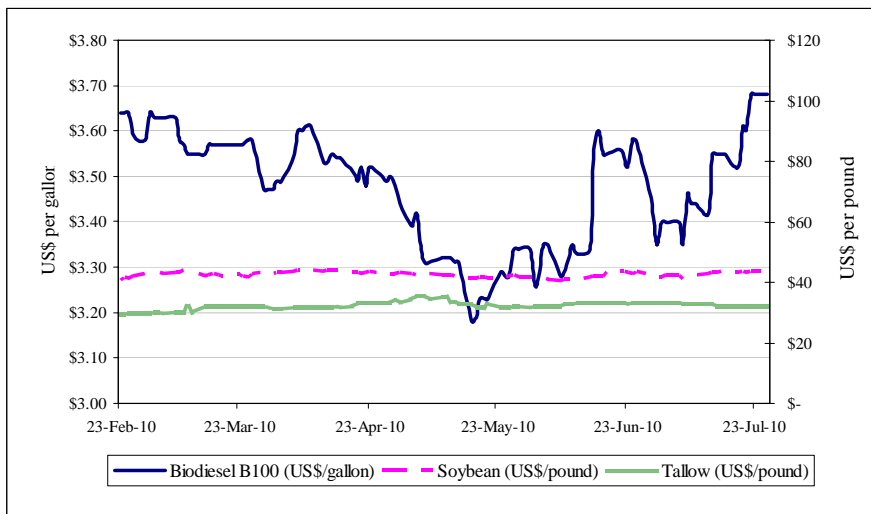
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with seven other companies. Plant 2 is likely to qualify; however, the resolution might be delayed, causing a potential delay on cash flows from incentive monies. We expect the NRC's resolution to transpire over the next quarter.

**BIODIESEL PRICES INCREASING**

Pricing for biodiesel has improved as mandates in the U.S began on July 1, 2010. Pricing is supported by an upward trend in the price of Renewable Identification Number (RIN) credits, which has doubled over the past month (to \$0.60 from \$0.30/gallon). RIN's are identifiers used to demonstrate compliance with the Renewable Fuel Standard mandate, as well as to track volumes of renewable fuels. RINs could be sold individually and/or are reflected in price of biodiesel. We believe the RIN credit price is likely to continue increasing until the obligated parties have acquired sufficient RINs to meet this year's mandate. We note that while BIOX does not sell RIN credits individually albeit it benefits from improved biodiesel prices.

Exhibit 1. Biodiesel B100 Prices



Source: Bloomberg

**VALUATION**

We have adjusted our estimates to reflect the quarterly update and a potential later commissioning date for plant 2. In our estimates, we were expecting plant 2 to begin operations by YE2011. We have delayed the start date by approximately six months. Our updated estimates are as follow:

Exhibit 2. New Estimates

(C\$, millions)	Prior 2010E	2010E	Prior 2011E	2011E	Prior 2012E	2012E
Revenue	\$54.4	\$44.7	\$61.3	\$57.8	\$131.1	\$114.7
Gross Margin	\$5.6	\$2.4	\$8.1	\$7.6	\$37.1	\$32.5
EBITDA	(\$0.2)	(\$3.4)	\$2.6	\$2.5	\$28.6	\$25.1
FD EPS	(\$0.37)	(\$0.46)	(\$0.08)	(\$0.08)	\$0.34	\$0.29

Source: Clarus Securities Inc.

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We are decreasing our target price to \$2.25 from \$2.50 per share previously, based on a 2012E EV/EBITDA multiple of 5.5x discounted back to 2010 at 10% (unchanged).

**Exhibit 3. EV/EBITDA Valuation**

	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Valuation multiple	<b>5.5x</b>	<b>5.5x</b>	<b>5.5x</b>
Forecast EBITDA	(3.4)	2.5	25.1
=Enterprise value	-\$19	\$14	\$138
less: adj. net debt *	\$7.5	\$7.5	\$7.5
Equity value	nmf	\$6	\$130
Equity value per share			<b>\$2.70</b>
<b>Value per share</b>	<b>\$2.23</b>	<b>(@10% discount rate)</b>	

\* Adjusted for plant II capex

Source: Clarus Securities Inc.

Target Price Calculation: We value shares of BIOX using the 2012E EV/EBITDA multiple approach.

Key Risks to Target Price: For a full disclosure of risk factors, please refer to our initiating report dated May 20, 2010.

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The analyst has visited the Company's corporate offices in Hamilton, Ontario. No payment or reimbursement was received from the issuer for the associated travel costs.

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Within the last 24 months, Clarus Securities Inc. has managed or co-managed a public offering of securities of this company.

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**Buy:** Attractively valued and expected to appreciate significantly from the current price over the next 12-18 months.

**Speculative Buy:** Expected to appreciate significantly from the current price over the next 12-18 months. Financial and/or operational risk is high in the analyst's view.

**Accumulate:** Attractively valued, but given the current market price, is expected to appreciate moderately over the next 12-18 months.

**Hold:** Fairly valued and expected to trade in line with the current price over the next 12-18 months.

**Sell:** Overvalued and expected to decline from the current price over the next 12-18 months.

**Under review:** Pending additional review and/or information. No rating presently assigned.

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**EnWave Corporation (ENW-TSX.V)**  
Nestlé R&D Agreement Announced

<b>EnWave Corporation (ENW-TSX.V)</b>		<b>Steven Gold, CFA</b>				
Previous Close:	\$1.34	(416) 343-2782				
<b>Recommendation:</b>	<b>NR</b>	<b>12-Month Target:</b>				<b>NR</b>
Potential Return	-	FY/E: Sep 30	REV (\$m)	P/REV	EPS FD (\$)	P/E
FD Market Cap (mm)	\$89.8	2007A	0.1	nmf	(0.05)	nmf
52 Week High	\$1.39	2008A	0.1	nmf	(0.06)	nmf
52 Week Low	\$0.34	2009A	0.5	nmf	(0.05)	nmf

Yesterday, EnWave Corp. announced that it has signed a research & development agreement with a subsidiary of Nestlé S.A. Terms of the agreement have not been released although it does centre around EnWave's nutraRev technology that focuses on dried food products. While Nestle has many product lines and subsidiaries, any one of those subsidiaries would likely be significant and material in terms of potential royalty generating revenues for EnWave.

We understand Nestle has been testing EnWave's advanced food drying technology for some time and in our view, this agreement represents the next step before full-scale adoption. As Nestlé and its subsidiaries are definitely "Tier 1" players, our view is that meaningful revenue could be realized by Enwave in the order of as much as \$25-\$50 million on an annual basis once equipment is in place. Recall EnWave's revenue model where by it plans to realize royalties based on the value of dried product sold by the food manufacturer. Given the cost savings realized by the manufacturer compared to the traditional yet more energy-intensive and labourious freeze drying methods, that manufacturer would still see significant cost savings even after paying EnWave its share.

**Exhibit 1. Comparison to Freeze Drying**

	<i>nutra REV</i>	Freeze Dry
<b>Initial Drying Temperature</b>	30°C to 50°C	-50°C to -20°C
<b>Final Drying Temperature</b>	45°C to 60°C	30°C to 50°C
<b>Drying Time</b>	0.2 to 2 h	24 to 36 h
<b>Labour*</b>	12 FTE	24 FTE
<b>Energy Costs</b>	\$0.23/kg dried product	\$0.66/kg dried product
<b>Capital Costs</b>	\$0.13/kg dried product	\$1.19/kg dried product

\* FTE - Full Time Equivalent

Source: Company reports, Clarus Securities Inc.

Despite past advances and successes at the commercial level, this agreement is, in our view, the most significant to date as it combines EnWave's "game changing" drying technology with the world's largest food and

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beverage manufacturer. Success in one subsidiary could lead not only to new applications in others across Nestlé, but as management indicated and where we agree; it also sends a strong signal market signal to other food processing companies around the world.

We think the Company is currently at an inflection point. The Company profile has been considerably derisked as it is now in the commercialization phase within the dried food market opportunity.

EnWave's REV technology has potential to rapidly penetrate the dried products market well beyond just food applications. The Company is pursuing a high-margin royalty revenue model (50%+ EBITDA margins are achievable) where even at a small penetration rate (5%) and a conservative royalty (3%), EnWave can generate US\$90 million in revenue and EBITDA of approximately US\$50 million.

Looking further out, net sales of aggregate food and pharmaceutical products are expected to be US\$120 billion by 2018. Granted this is some time out, however, based on half the potential market opportunity at US\$60 billion, we assess the potential of EnWave to penetrate the market and grow its revenue stream based on royalty rates up to 10% and up to a 15% market penetration level.

Exhibit 2. Revenue Sensitivity (US\$, Millions)

		Market Penetration %										
		5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
Royalty %	1.0%	\$30	\$36	\$42	\$48	\$54	\$60	\$66	\$72	\$78	\$84	\$90
	2.0%	\$60	\$72	\$84	\$96	\$108	\$120	\$132	\$144	\$156	\$168	\$180
	3.0%	\$90	\$108	\$126	\$144	\$162	\$180	\$198	\$216	\$234	\$252	\$270
	4.0%	\$120	\$144	\$168	\$192	\$216	\$240	\$264	\$288	\$312	\$336	\$360
	5.0%	\$150	\$180	\$210	\$240	\$270	\$300	\$330	\$360	\$390	\$420	\$450
	6.0%	\$180	\$216	\$252	\$288	\$324	\$360	\$396	\$432	\$468	\$504	\$540
	7.0%	\$210	\$252	\$294	\$336	\$378	\$420	\$462	\$504	\$546	\$588	\$630
	8.0%	\$240	\$288	\$336	\$384	\$432	\$480	\$528	\$576	\$624	\$672	\$720
	9.0%	\$270	\$324	\$378	\$432	\$486	\$540	\$594	\$648	\$702	\$756	\$810
	10.0%	\$300	\$360	\$420	\$480	\$540	\$600	\$660	\$720	\$780	\$840	\$900

Source: Clarus Securities

Given the Company's strong patents, its first mover advantage (to replicate the technology from scratch could require at least 5 years), its long-term royalty based revenue model and wide potential application of the technology, it is reasonable to pay at least 4-5x EBITDA or more for a Company of this nature. Based on this, an enterprise value of \$200-\$250 million is possible using the aforementioned metrics which would imply a near tripling of share price from current levels.

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