

# Donner Metals Ltd.

## (DON-V, \$0.19)

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Rating: SECTOR OUTPERFORM


Target Price: \$0.40

Risk: SPECULATIVE

### A New Zinc Producer Hidden in Xstrata's Shadow

Donner's flagship asset is a 35% interest in the advanced-stage Bracemac-McLeod zinc-copper project located within the Matagami base metals mining camp, in the Abitibi Greenstone Belt of Quebec. Xstrata, Donner's 65% project partner and 'operator', is heavily invested in the Matagami district, and has an inherent interest in achieving timely production start-up at Bracemac-McLeod, noting the limited reserve life at its neighbouring Perseverance mine, and the potential supply 'gap' the Company's Matagami mill faces. Xstrata intends to bring the Bracemac-McLeod project on line in order to replace Perseverance production. Development to date, ahead of schedule (and on budget), is well on its way to setting the stage for early 2013 production start-up. Although difficult to quantify, we stress the value of Xstrata's position as 'operator', as the major's 'fully integrated' profile, coupled with Matagami-specific production expertise (and access to an established mill/concentrator), considerably decreases Bracemac-McLeod's execution risk for Donner's shareholders. Furthermore, we would not be surprised to see the major consolidate its ownership in the mine. Hence, 'corporate activity' is a notable 'wild card' catalyst that could drive Donner's market valuation higher.

 **Robust Project** – Bracemac-McLeod's development plans are detailed in a September 2010 feasibility study. The 2,500 tpd ramp-accessed underground mining operation is underpinned by a 4-year mine plan expected to produce +150 Mlb of zinc annually at an average total zinc cash cost of US\$0.42/lb (100% basis; net of copper, silver, and gold credits). Run-of-mine ore will be hauled ~4 kilometres to Xstrata's 100% owned Matagami mill/concentrator, which has the capacity to treat up to 2,950 tpd utilizing standard off-the-shelf froth flotation technology. Donner will be charged a 'fee' for use of Xstrata's Matagami mill and tailings facilities. The September 2010 feasibility study includes a US\$164M life-of-mine capital-cost estimate (100% basis; including a 10% contingency), of which US\$116M will be incurred before production start-up. Donner's additional funding requirements to meet its pre-production initial capital-cost obligations are minimal—(more than) covered, in part, by a modest \$10M Q1/12 equity financing priced at \$0.25 per share in our model. Hence, the Company is poised to make the transition from explorer/developer to established producer within the next 12 to 18 months—a milestone that should garner the market's re-rating of Donner.

 **More than Just Bracemac-McLeod** – We anticipate Donner will receive additional value recognition through reserve-life enhancement at Bracemac-McLeod through the delineation of McLeod Deep. Ultimately, we would not be surprised to see the mine provide the Matagami mill with +8 years of ore feed. Regional exploration extends beyond Bracemac-McLeod. Five other joint-venture areas (JVA) with Xstrata are underpinned by an extensive list of new (untested) good-quality exploration targets. Prior to 2006, exploration at Matagami was focused 'entirely' on the Key Tuffite horizon. However, Donner's discovery of stratigraphically separated ore horizons at Bracemac has demonstrated the potential for 'stacked' VMS mineralization in the camp. The Key Tuffite is still regarded as the most favourable/prolific VMS horizon in the district. However, Donner clearly documented the reactivation of the Matagami hydrothermal system, which led to additional VMS development in 'hanging wall' volcanic rocks—a revelation that has 'reopened' the entire district for future exploration.

**Valuation:** We base our formal valuation on a 4.5x multiple to 2013E CFPS of US\$0.09. Donner's peer group of established base metals producers currently trades at +6.0x annualized CFPS.



**Donner Metals Ltd**

Source: Donner Metals Ltd.

Please see pages 47 - 50 for full rating structures, important disclosures, risk parameters and disclaimers.



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## Executive Summary

### Rating **SECTOR OUTPERFORM**

**Target Price** **\$0.40**

Current Price \$0.19

Return Potential 116%

52-Week High / Low \$0.37 / \$0.17

Share Capital 161.4 million (O/S)  
173.6 million (F/D)

Market Capitalization US\$30.5M

Cash US\$7.0M

Working Capital US\$11.0M

Long-term Debt US\$0.0M

Enterprise Value US\$19.5M

Daily Volume

(3-month average) 206,420

CEO Harvey Keats

Company Website

[www.donnermetals.com](http://www.donnermetals.com)

### Risk Profile **SPECULATIVE**

Political Risk Low

Forecast Risk Moderate

Financial Risk Moderate

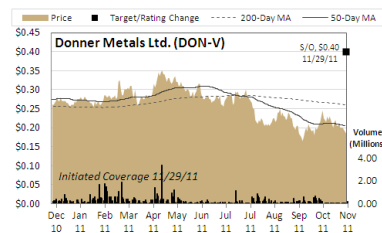
Valuation Risk Moderate

**Currency** – C\$ unless noted

**Industry** – Mining (base metals)

**Company Profile** – Donner's 35% owned Bracemac-McLeod zinc-copper mine in Quebec, targeting production start-up in early 2013, is poised to benefit from the operational expertise of the project's 'major' partner Xstrata. At full-scale production, the ramp-accessed underground operation is expected to produce more than 150 Mlb of payable zinc annually at a LOM average total zinc cash cost of US\$0.40/lb net of credits (Haywood model; 100% basis). Utilization of Xstrata's existing 2,950 tpd Matagami mill to produce separate zinc and copper concentrates through standard off-the-shelf froth flotation technology significantly reduces execution risk.

### Price Performance



Source: Capital IQ and Haywood Securities

## A New Zinc Producer Hidden in Xstrata's Shadow

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■ **Robust Project** – Bracemac-McLeod's development plans are detailed in a September 2010 feasibility study. The 2,500 tpd ramp-accessed underground mining operation is underpinned by a 4-year mine plan expected to produce +150 Mlb of zinc annually at an average total zinc cash cost of US\$0.42/lb (100% basis; net of copper, silver, and gold credits). Run-of-mine ore will be hauled ~4 kilometres to Xstrata's 100% owned Matagami mill/concentrator, which has the capacity to treat up to 2,950 tpd utilizing standard off-the-shelf froth flotation technology. Donner will be charged a 'fee' for use of Xstrata's Matagami mill and tailings facilities. The September 2010 feasibility study includes a US\$164M life-of-mine capital-cost estimate (100% basis; including a 10% contingency), of which US\$116M will be incurred before production start-up. **Donner's additional funding requirements to meet its pre-production initial capital-cost obligations are minimal—(more than) covered, in part, by a modest \$10M Q1/12 equity financing priced at \$0.25 per share in our model. Hence, the Company is poised to make the transition from explorer/developer to established producer within the next 12 to 18 months—a milestone that should garner the market's re-rating of Donner.**

■ **More than Just Bracemac-McLeod** – We anticipate Donner will receive additional value recognition through reserve-life enhancement at Bracemac-McLeod through the delineation of McLeod Deep. Ultimately, we would not be surprised to see the mine provide the Matagami mill with +8 years of ore feed. Regional exploration extends beyond Bracemac-McLeod. Five other joint-venture areas (JVA) with Xstrata are underpinned by an extensive list of new (untested) good-quality exploration targets. Prior to 2006, exploration at Matagami was focused 'entirely' on the Key Tuffite horizon. However, Donner's discovery of stratigraphically separated ore horizons at Bracemac has demonstrated the potential for 'stacked' VMS mineralization in the camp. The Key Tuffite is still regarded as the most favourable/prolific VMS horizon in the district. **However, Donner clearly documented the reactivation of the Matagami hydrothermal system, which led to additional VMS development in 'hanging wall' volcanic rocks—a revelation that has 'reopened' the entire district for future exploration.**

**Valuation:** We base our formal valuation on a 4.5x multiple to 2013E CFPS of US\$0.09. Donner's peer group of established base metals producers currently trades at +6.0x annualized CFPS.



**Donner Metals Ltd. (DON-V)**  
**Rating: SECTOR OUTPERFORM**  
**Target Price: C\$0.40**  
 Target Price Metric: 4.5x 2013E CFPS

Target Price, C\$	\$0.40	Shares O/S, million	161.4
Current Price, C\$	\$0.19	Shares F/D, million	173.6
Return, %	116%	Market Capitalization, US\$M	\$30.5
52-Week High / Low, C\$	\$0.37 / \$0.17	Company CEO	Harvey Keats
Daily Volume (100-day avg)	206,420	Company Web Site	www.donnermetals.com

	US\$M	US\$ / O/S Share	C\$M	C\$ / O/S Share
Market Capitalization	\$30.5	\$0.19	\$29.8	\$0.19
Current Cash	\$7.0	\$0.04	\$6.9	\$0.04
F/D Cash Adds	\$3.7	\$0.02	\$3.6	\$0.02
Working Capital	\$11.0	\$0.07	\$10.8	\$0.07
Long-term Debt	\$0.0	\$0.00	\$0.0	\$0.00
Book Value	\$8.8	\$0.05	\$8.6	\$0.05
Enterprise Value (EV)	\$19.5	\$0.12	\$19.1	\$0.12

EV = Market Capitalization - Working Capital + Long-term Debt  
 C\$/US\$ FX Rate: 0.98

	Number	Price	Proceeds	Expiry
Warrants	0.0M	C\$0.00	US\$0.0M	-
Options	12.3M	C\$0.29	US\$3.7M	various
Warrants + Options	12.3M	C\$0.29	US\$3.7M	

C\$/US\$ FX Rate: 0.98

	2012	2013	2014	2015	2016	2017
Forecast Zinc Price, US\$/lb	\$1.05	\$1.15	\$1.15	\$1.15	\$1.10	\$1.10
Realized Zinc Price, US\$/lb	-	\$1.15	\$1.15	\$1.15	\$1.10	-
Forecast Copper Price, US\$/lb	\$4.00	\$3.50	\$3.00	\$3.00	\$3.00	\$3.00
Realized Copper Price, US\$/lb	-	\$2.15	\$1.90	\$1.90	\$1.90	-
C\$/US\$ FX Rate	\$0.98	\$1.00	\$1.03	\$1.05	\$1.05	\$1.06
Average Shares O/S, millions	200	207	207	207	207	207
Gross Sales Revenue, US\$M	\$0	\$81	\$81	\$86	\$88	\$0
Net Revenue, US\$M	\$0	\$62	\$61	\$66	\$66	\$0
Cost of Sales, US\$M	\$0	(\$30)	(\$28)	(\$32)	(\$33)	\$0
Corporate G&A, US\$M	(\$2)	(\$2)	(\$2)	(\$2)	(\$2)	\$0
EBITDA, US\$M	(\$2)	\$31	\$32	\$32	\$32	\$0
EV / EBITDA	-	0.6x	0.6x	0.6x	0.6x	-
DD&A, US\$M	\$0	(\$13)	(\$13)	(\$16)	(\$16)	\$0
Gain on Derivative Instruments, US\$M	\$0	\$0	\$0	\$0	\$0	\$0
Earnings, US\$M	(\$1)	\$10	\$12	\$11	\$11	\$2
EPS, US\$	(\$0.01)	\$0.05	\$0.06	\$0.05	\$0.05	\$0.01
Current Price / EPS	-	-	3.2x	3.3x	3.2x	-
Target Price / EPS	-	8.3x	6.8x	7.2x	6.9x	31.4x
Cash Flow Before W/C Changes, US\$M	(\$1)	\$18	\$20	\$21	\$22	\$2
CFPS, US\$	(\$0.01)	\$0.09	\$0.10	\$0.10	\$0.10	\$0.01
Current Price / CFPS	-	2.1x	1.9x	1.8x	1.7x	-
Target Price / CFPS	0.0x	4.5x	4.1x	3.8x	3.6x	31.4x
CAPEX, US\$M	(\$22)	(\$4)	(\$4)	(\$4)	(\$4)	(\$0)
Proceeds from Equity Financing, US\$M	\$10	\$0	\$0	\$0	\$0	\$0
Proceeds from Debt Financing, US\$M	\$0	\$0	\$0	\$0	\$0	\$0
Debt Repayment, US\$M	\$0	\$0	\$0	\$0	\$0	\$0
Free Cash Flow, US\$M	(\$8)	\$14	\$15	\$16	\$17	\$2
FCPS, US\$	(\$0.04)	\$0.07	\$0.07	\$0.08	\$0.08	\$0.01

November 9, 2011 - C\$0.44M non-brokered flow-through financing (2.0M shares @ C\$0.22 per share)
November 9, 2011 - C\$2.0M brokered flow-through financing (9.1M shares @ C\$0.22 per share)
July 13, 2011 - C\$2.25M Sandstorm equity financing (6.2M shares @ C\$0.35 per share)

	O/S (millions)	O/S (%)	F/D (millions)	F/D (%)
Matrix Fund	4.0	2%	4.0	2%
Mackenzie Financial	1.2	1%	1.2	1%
IG Investment Management	0.0	0%	0.0	0%
Management and Directors	1.4	1%	1.4	1%
Total	161.4	4%	173.6	4%

	Haywood Model	\$0.20	\$0.80	\$1.40	\$2.00	\$0.89
Forecast Zinc Price, US\$/lb	\$1.50	\$2.50	\$3.50	\$4.50	\$3.39	\$3.39
Forecast C\$/US\$ FX Rate	1.20	1.10	1.00	0.90	1.04	1.04
Corporate Adjustments, US\$M	\$24	\$24	\$24	\$24	\$24	\$24
Bracemac-McLeod After-Tax Project NAV(10%), US\$M	\$23	(\$67)	(\$11)	\$45	\$98	\$4
Additional Exploration Credit, US\$M	\$13	\$13	\$13	\$13	\$13	\$13
Corporate NAV, US\$M	\$60	(\$31)	\$26	\$82	\$135	\$40
Corporate Adjustments, C\$ / F/D share	\$0.11	\$0.13	\$0.12	\$0.11	\$0.10	\$0.11
Bracemac-McLeod After-Tax Project NAV(10%), C\$ / F/D share	\$0.10	(\$0.37)	(\$0.06)	\$0.20	\$0.40	\$0.02
Additional Exploration Credit, C\$ / F/D share	\$0.06	\$0.07	\$0.06	\$0.06	\$0.05	\$0.06
Corporate NAV, C\$ / F/D share	\$0.27	(\$0.17)	\$0.13	\$0.37	\$0.56	\$0.19
Current Price / Corporate NAV	0.7x	-	1.4x	0.5x	0.3x	1.0x
Target Price / Corporate NAV	1.5x	-	3.1x	1.1x	0.7x	2.1x
2013E CFPS, US\$	\$0.09	(\$0.12)	\$0.02	\$0.12	\$0.20	\$0.06
2014E CFPS, US\$	\$0.10	(\$0.13)	\$0.03	\$0.13	\$0.23	\$0.06

Based on 35% Bracemac-McLeod project ownership.  
 Model shares F/D (fully financed): 219M

	Tonnes (000's)	Zn Grade (%)	ZnEq Grade (%)	Zinc (Mlb)	ZnEq (Mlb)	EV/lb ZnEq (US\$/lb)
Haywood Model Mineable (100%)	3,728	9.67%	14.47%	795	1,189	-
Haywood Model Payable (100%)	-	-	-	606	861	-
Proven and Probable Reserve (100%)	3,728	9.60%	14.44%	789	1,187	-
Additional M&I Resource (100%)	1,981	4.11%	7.83%	179	342	-
Inferred Resource (100%)	2,628	8.79%	15.01%	509	870	-
Total Reserve and Resource (100%)	8,338	8.04%	13.05%	1,478	2,398	-
Attributable Reserve (35%)	1,305	9.60%	14.44%	276	415	\$0.047
Attributable Reserve and Resource (35%)	2,918	8.04%	13.05%	517	839	\$0.023

Attributable values are based on 35% Bracemac-McLeod and 35% (projected) PD-1 ownership.

	Analysts	Mean EPS	High / Low	Haywood vs. Cons.	Mean CFPS	High / Low	Haywood vs. Cons.
2012 Consensus Estimate	-	-	-	-	-	-	-
2013 Consensus Estimate	-	-	-	-	-	-	-
Consensus Valuation	Analysts	SO Rating	SP Rating	SU Rating	Mean Target	High / Low	Haywood vs. Cons.

	Share Price	Corp NAV	Price / NAV	2011E CFPS	Price / CFPS	2012E CFPS	Price / CFPS
Donner Metals Ltd. (DON-V)	C\$0.19	US\$0.27	0.7x	(US\$0.01)	-	(US\$0.01)	-
Anvil Mining Ltd. (AVM-T)	C\$7.29	US\$7.47	1.0x	US\$0.40	18.8x	US\$1.75	4.3x
Avanti Mining Inc. (AVT-V)	C\$0.11	US\$0.39	0.3x	(US\$0.01)	-	US\$0.00	-
Baja Mining Corp. (BAJ-T)	C\$0.79	US\$1.72	0.5x	(US\$0.05)	-	(US\$0.10)	-
Capstone Mining Corp. (CS-T)	C\$2.54	US\$5.10	0.5x	US\$0.45	5.8x	US\$0.37	7.0x
Copper Mountain Mining Corp. (CUM-T)	C\$4.37	US\$7.66	0.6x	US\$0.20	22.1x	US\$1.85	2.4x
Coro Mining Corp. (COP-T)	C\$0.34	US\$2.00	0.2x	(US\$0.01)	-	US\$0.01	-
First Quantum Minerals Ltd. (FM-T)	C\$18.62	US\$17.73	1.1x	US\$2.25	8.5x	US\$3.00	6.3x
Lundin Mining Corp. (LUN-T)	C\$3.66	US\$8.67	0.4x	US\$0.55	6.9x	US\$0.60	6.2x
Mercator Minerals Ltd. (ML-T)	C\$1.53	US\$4.29	0.4x	US\$0.10	16.3x	US\$0.38	4.1x
Moly Mines Ltd. (MOL-T)	C\$0.39	US\$0.64	0.6x	US\$0.12	3.3x	US\$0.01	-
Nevsun Resources Ltd. (NSU-T)	C\$5.53	US\$5.35	1.1x	US\$1.00	5.7x	US\$1.55	3.6x
Royal Nickel Corp. (RNX-T)	C\$0.63	US\$2.55	0.3x	(US\$0.06)	-	(US\$0.06)	-
Zazu Metals Corp. (ZAZ-T)	C\$1.15	US\$1.71	0.7x	(US\$0.03)	-	(US\$0.02)	-
Peer-Group Average (producers)	-	-	0.7x	-	10.9x	-	4.8x
Peer-Group Average (developers)	-	-	0.4x	-	-	-	-
Peer-Group Average (all)	-	-	0.6x	-	10.9x	-	4.8x

2011E C\$/US\$ FX Rate: 0.97  
 2012E C\$/US\$ FX Rate: 0.98

	RLOM	2013	2014	2015	2016	2017
Ore Tonnes Mined, millions	3.7	0.8	0.8	1.0	1.0	-
Waste Tonnes Mined, millions	1.3	0.6	0.5	0.2	-	-
Ore Tonnes Milled, millions	3.7	0.8	0.8	1.0	1.0	-
Ore Tonnes Milled, tonnes per day	2,500	2,300	2,200	2,700	2,750	-
Zinc Grade Milled, %	9.7%	9.1%	11.1%	9.1%	9.6%	-
Copper Grade Milled, %	1.2%	1.5%	1.1%	1.2%	1.2%	-
Zinc Recovery, %	92%	92%	92%	92%	92%	-
Copper Recovery, %	86%	86%	86%	86%	86%	-
Zinc production (in concentrate), Mlb	714	155	180	182	196	-
Copper production (in concentrate), Mlb	87	25	17	22	22	-
Payable Zinc Production, Mlb	606	132	153	154	167	-
Payable Copper Production, Mlb	83	24	17	21	22	-
On-Site Operating Cost, C\$/tonne milled	\$85	\$85	\$85	\$85	\$85	-
Total Zinc Cash Cost (NoC; IR), US\$/lb	\$0.40	\$0.30	\$0.40	\$0.40	\$0.40	-
On-Site Operating Cost (DON attrib. share), C\$/tonne milled	\$100	\$105	\$105	\$100	\$100	-
Total Zinc Cash Cost (NoC; IR; DON attrib. share), US\$/lb	\$0.60	\$0.50	\$0.60	\$0.60	\$0.60	-

NoC = net of credits; IR = including royalties.

	RLOM	2013	2014	2015	2016	2017
Zinc Offtake, Mlb	-	-	-	-	-	-
Zinc Offtake Price, US\$/lb	-	-	-	-	-	-
Copper Offtake, Mlb	15	4	3	4	4	-
Copper Offtake Price, US\$/lb	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	-

	Year	Quarter	Amount (\$M)	Price (C\$/share)	Shares (millions)
Current O/S Share Capital	-	-	-	-	161
Current F/D Share Capital	-	-	-	-	174
Modelled Equity Financing	2012	Q1	C\$10.0	C\$0.25	40
Sandstorm Metal Purchase Agreement Purchase Deposit No. 2	2012	Q2	US\$1.4	C\$0.25	5
Modelled Fully Financed F/D Share Capital	-	-	-	-	219

Source: Haywood Securities

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Target Price Metric: 4.5x 2013E CFPS

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 52-Week High / Low, C\$ \$0.37 / \$0.17  
 Shares O/S, million 161.4  
 Shares F/D, million 173.6

Market Capitalization, US\$M \$30.5  
 Current Cash, US\$M \$7.0  
 Working Capital, US\$M \$11.0  
 Long-term Debt, US\$M -  
 Enterprise Value (EV), US\$M \$19.5

### After-Tax Corporate NAV Sensitivity (C\$ per fully diluted share)

		Zinc Price (US\$/lb)									
		\$0.25	\$0.50	\$0.75	\$1.00	\$1.25	\$1.50	\$1.75	\$2.00	\$2.25	\$2.50
Copper Price (US\$/lb)	\$0.50	(\$0.16)	(\$0.06)	\$0.03	\$0.13	\$0.23	\$0.33	\$0.42	\$0.52	\$0.62	\$0.71
	\$1.00	(\$0.15)	(\$0.05)	\$0.05	\$0.15	\$0.25	\$0.34	\$0.44	\$0.54	\$0.63	\$0.73
	\$1.50	(\$0.13)	(\$0.04)	\$0.06	\$0.16	\$0.26	\$0.36	\$0.45	\$0.55	\$0.65	\$0.74
	\$2.00	(\$0.12)	(\$0.02)	\$0.08	\$0.18	\$0.27	\$0.37	\$0.47	\$0.56	\$0.66	\$0.76
	\$2.50	(\$0.11)	(\$0.01)	\$0.09	\$0.19	\$0.29	\$0.38	\$0.48	\$0.58	\$0.67	\$0.77
	\$3.00	(\$0.09)	\$0.01	\$0.11	\$0.21	\$0.31	\$0.40	\$0.50	\$0.60	\$0.69	\$0.79
	\$3.50	(\$0.07)	\$0.02	\$0.13	\$0.22	\$0.32	\$0.42	\$0.51	\$0.61	\$0.71	\$0.80
	\$4.00	(\$0.06)	\$0.04	\$0.14	\$0.24	\$0.33	\$0.43	\$0.53	\$0.62	\$0.72	\$0.82
	\$4.50	(\$0.05)	\$0.06	\$0.15	\$0.25	\$0.35	\$0.44	\$0.54	\$0.64	\$0.73	\$0.83
	\$5.00	(\$0.03)	\$0.07	\$0.17	\$0.26	\$0.36	\$0.46	\$0.55	\$0.65	\$0.75	\$0.84

### After-Tax Bracemac-McLeod Project NAV Sensitivity (C\$ per fully diluted share)

		Zinc Price (US\$/lb)									
		\$0.25	\$0.50	\$0.75	\$1.00	\$1.25	\$1.50	\$1.75	\$2.00	\$2.25	\$2.50
Copper Price (US\$/lb)	\$0.50	(\$0.33)	(\$0.23)	(\$0.13)	(\$0.03)	\$0.07	\$0.16	\$0.26	\$0.36	\$0.45	\$0.55
	\$1.00	(\$0.31)	(\$0.21)	(\$0.12)	(\$0.02)	\$0.08	\$0.18	\$0.27	\$0.37	\$0.47	\$0.56
	\$1.50	(\$0.30)	(\$0.20)	(\$0.10)	(\$0.00)	\$0.09	\$0.19	\$0.29	\$0.38	\$0.48	\$0.58
	\$2.00	(\$0.28)	(\$0.19)	(\$0.09)	\$0.01	\$0.11	\$0.20	\$0.30	\$0.40	\$0.49	\$0.59
	\$2.50	(\$0.27)	(\$0.17)	(\$0.07)	\$0.02	\$0.12	\$0.22	\$0.31	\$0.41	\$0.51	\$0.60
	\$3.00	(\$0.25)	(\$0.15)	(\$0.05)	\$0.04	\$0.14	\$0.24	\$0.33	\$0.43	\$0.53	\$0.62
	\$3.50	(\$0.24)	(\$0.14)	(\$0.04)	\$0.06	\$0.15	\$0.25	\$0.35	\$0.44	\$0.54	\$0.64
	\$4.00	(\$0.22)	(\$0.12)	(\$0.03)	\$0.07	\$0.17	\$0.26	\$0.36	\$0.46	\$0.55	\$0.65
	\$4.50	(\$0.21)	(\$0.11)	(\$0.01)	\$0.08	\$0.18	\$0.28	\$0.37	\$0.47	\$0.57	\$0.66
	\$5.00	(\$0.20)	(\$0.10)	\$0.00	\$0.10	\$0.19	\$0.29	\$0.39	\$0.48	\$0.58	\$0.68

### 2013E CFPS Sensitivity (US\$)

		Zinc Price (US\$/lb)									
		\$0.25	\$0.50	\$0.75	\$1.00	\$1.25	\$1.50	\$1.75	\$2.00	\$2.25	\$2.50
Copper Price (US\$/lb)	\$0.50	(\$0.15)	(\$0.09)	(\$0.04)	\$0.02	\$0.06	\$0.09	\$0.13	\$0.16	\$0.19	\$0.23
	\$1.00	(\$0.14)	(\$0.08)	(\$0.02)	\$0.03	\$0.07	\$0.10	\$0.13	\$0.17	\$0.20	\$0.23
	\$1.50	(\$0.13)	(\$0.07)	(\$0.01)	\$0.04	\$0.07	\$0.11	\$0.14	\$0.17	\$0.20	\$0.24
	\$2.00	(\$0.12)	(\$0.06)	(\$0.00)	\$0.05	\$0.08	\$0.11	\$0.15	\$0.18	\$0.21	\$0.24
	\$2.50	(\$0.11)	(\$0.05)	\$0.01	\$0.05	\$0.09	\$0.12	\$0.15	\$0.18	\$0.22	\$0.25
	\$3.00	(\$0.09)	(\$0.03)	\$0.02	\$0.06	\$0.09	\$0.13	\$0.16	\$0.19	\$0.23	\$0.26
	\$3.50	(\$0.08)	(\$0.02)	\$0.03	\$0.07	\$0.10	\$0.13	\$0.17	\$0.20	\$0.23	\$0.26
	\$4.00	(\$0.07)	(\$0.01)	\$0.04	\$0.07	\$0.11	\$0.14	\$0.17	\$0.20	\$0.24	\$0.27
	\$4.50	(\$0.06)	(\$0.00)	\$0.05	\$0.08	\$0.11	\$0.15	\$0.18	\$0.21	\$0.24	\$0.28
	\$5.00	(\$0.05)	\$0.01	\$0.05	\$0.09	\$0.12	\$0.15	\$0.18	\$0.22	\$0.25	\$0.28

### 2014E CFPS Sensitivity (US\$)

		Zinc Price (US\$/lb)									
		\$0.25	\$0.50	\$0.75	\$1.00	\$1.25	\$1.50	\$1.75	\$2.00	\$2.25	\$2.50
Copper Price (US\$/lb)	\$0.50	(\$0.14)	(\$0.08)	(\$0.01)	\$0.05	\$0.09	\$0.12	\$0.16	\$0.20	\$0.24	\$0.28
	\$1.00	(\$0.13)	(\$0.07)	(\$0.00)	\$0.05	\$0.09	\$0.13	\$0.17	\$0.21	\$0.25	\$0.29
	\$1.50	(\$0.13)	(\$0.06)	\$0.00	\$0.06	\$0.10	\$0.13	\$0.17	\$0.21	\$0.25	\$0.29
	\$2.00	(\$0.12)	(\$0.05)	\$0.01	\$0.06	\$0.10	\$0.14	\$0.18	\$0.22	\$0.26	\$0.30
	\$2.50	(\$0.11)	(\$0.05)	\$0.02	\$0.06	\$0.10	\$0.14	\$0.18	\$0.22	\$0.26	\$0.30
	\$3.00	(\$0.10)	(\$0.04)	\$0.03	\$0.07	\$0.11	\$0.15	\$0.19	\$0.23	\$0.27	\$0.31
	\$3.50	(\$0.09)	(\$0.03)	\$0.04	\$0.08	\$0.12	\$0.15	\$0.19	\$0.23	\$0.27	\$0.31
	\$4.00	(\$0.09)	(\$0.02)	\$0.04	\$0.08	\$0.12	\$0.16	\$0.20	\$0.24	\$0.28	\$0.32
	\$4.50	(\$0.08)	(\$0.02)	\$0.05	\$0.08	\$0.12	\$0.16	\$0.20	\$0.24	\$0.28	\$0.32
	\$5.00	(\$0.07)	(\$0.01)	\$0.05	\$0.09	\$0.13	\$0.17	\$0.21	\$0.25	\$0.29	\$0.32

Haywood model is based on a forecast zinc price of US\$1.05/lb in 2012, US\$1.15/lb in 2013, S\$1.15/lb in 2014, S\$1.15/lb in 2015, and US\$1.10/lb thereafter.

Haywood model is based on a forecast copper price of US\$4.00/lb in 2012, US\$3.50/lb in 2013, and US\$3.00/lb thereafter.

Current spot prices include a zinc price of US\$0.89/lb, and a copper price of US\$3.39/lb.

Source: Haywood Securities

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## Investment Profile

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Donner's flagship asset is a 35% interest in the advanced-stage Bracemac-McLeod zinc-copper project located within the Matagami base metals mining camp, in the Abitibi Greenstone Belt of north-central Quebec. **Xstrata, Donner's 65% project partner and 'operator', is heavily invested in the Matagami district, and has an inherent interest in achieving timely production start-up at Bracemac-McLeod.** In July 2010, the major announced plans to begin advancing development/construction initiatives at the project—well before Donner had formally earned an interest in the associated joint-venture area (JVA). This decision was prompted by the recognition of limited reserve life at Xstrata's neighbouring Perseverance mine, which is expected to be fully depleted by early 2013, and the potential supply 'gap' the Company's Matagami mill faced. **Xstrata intends to bring the Bracemac-McLeod project on line to replace Perseverance production. Development to date, ahead of schedule (and on budget), is well on its way to setting the stage for early 2013 production start-up. Although difficult to quantify, we stress the value of Xstrata's position as 'operator', as the major's 'fully integrated' profile, coupled with Matagami-specific production expertise (and access to an established mill/concentrator), considerably decreases Bracemac-McLeod's execution risk for Donner's shareholders. Furthermore, we would not be surprised to see the major consolidate its ownership in the mine. Hence, 'corporate activity' is a notable 'wild card' catalyst that could drive Donner's market valuation higher.**

Bracemac-McLeod's development plans are detailed in a September 2010 feasibility study) published by Genivar. The feasibility study is based on a 2,500-tonne-per-day (life-of-mine average) ramp-accessed underground mining operation, underpinned by a 4-year mine plan, expected to produce 606 million pounds of zinc, 83 million pounds of copper, 1.5 million ounces of silver, and 13,000 ounces of gold (payable) at an average total zinc cash cost of US\$0.42 per pound (net of credits). Run-of-mine ore will be hauled ~4 kilometres to Xstrata's 100% owned Matagami mill/concentrator, which has the capacity to treat up to 2,950 tonnes of ore per day utilizing standard off-the-shelf froth flotation to produce separate zinc and copper concentrates. Donner will be charged a 'fee' for the use of Xstrata's Matagami mill and tailings facilities. The September 2010 feasibility study includes a US\$164 million life-of-mine capital-cost estimate (100% basis; including a 10% contingency), of which US\$116 million will be incurred before production start-up. **Donner's additional funding requirements to meet its pre-production initial capital-cost obligations are minimal—(more than) covered, in part, by a modest \$10 million Q1/12 equity financing priced at \$0.25 per share in our model (25% dilution). Hence, the Company is poised to make the transition from explorer/developer to established producer within the next 12 to 18 months—a milestone that should garner a market re-rating of Donner's share price. We anticipate that Donner will receive additional value recognition through reserve-life enhancement at Bracemac-McLeod through the delineation of McLeod Deep.** Ultimately, we would not be surprised to see the mine provide the Matagami mill with +8 years of ore feed. Regional exploration extends beyond Bracemac-McLeod. Five other JVAs with Xstrata are underpinned by an extensive list of new (untested) good-quality exploration targets. Prior to 2006, exploration at Matagami was focused 'entirely' on the Key Tuffite horizon. However, Donner's discovery of the stratigraphically separated Upper Bracemac Zone, Bracemac Main Zone, and Bracemac Key Tuffite Zone has demonstrated the potential for 'stacked' volcanogenic massive sulphide (VMS) mineralization in the camp. The Key Tuffite is still regarded as the most favourable/prolific VMS horizon in the district. **However, Donner clearly documented the reactivation of the Matagami hydrothermal system, which led to additional VMS development in 'hanging wall' volcanic rocks—a revelation that has 'reopened' the entire district for future exploration. We have been formally monitoring Donner Metals Ltd.'s (DON-T) progress since September 2010 in Haywood's *Junior Exploration Universe* (refer to *Radar Screen*, September 9, 2010) and are now initiating full research coverage on the Company with a SECTOR OUTPEFORM rating and a target price of \$0.40 per share (116% implied return).**



## Valuation and Target Price

Our valuation is based on Haywood’s formal commodity price forecasts, which include zinc prices of US\$1.05 per pound in 2012, US\$1.15 per pound in 2013 to 2015, and a long-term (+2016) price of US\$1.10 per pound (refer to *Radar Screen*, September 8, 2011). **Our target price of \$0.40 per share is based on a 4.5x multiple to Donner’s 2013E CFPS of US\$0.09 (Haywood model)—an arguably conservative metric given (1) Donner’s project partner Xstrata, which significantly decreases execution risk, and (2) the Company’s peer group of established base metals producers, which currently trades at +6.0x annualized CFPS. We plan to reassess our formal valuation metric as production start-up at Bracemac-McLeod approaches.** Our model also generates a fully financed after-tax corporate NAV<sub>10%</sub> of \$0.27 per fully diluted share (219 million modelled fully financed, fully diluted shares outstanding), which includes the following:

- \$0.10 per share attributable to the Bracemac-McLeod project (10% discount rate; 35% project interest)
- \$0.06 per share attributable to resource upside potential in the Matagami mining camp
- \$0.11 per share attributable to corporate adjustments.

### NAV Valuation Breakdown and Sensitivity (35% Bracemac-McLeod ownership)

	Haywood Model	\$0.20	\$0.80	\$1.40	\$2.00	Spot Price
Long-Term Zinc Price Forecast, US\$/lb		\$0.20	\$0.80	\$1.40	\$2.00	
Long-Term Copper Price Forecast, US\$/lb		\$1.50	\$2.50	\$3.50	\$4.50	
Long-Term Silver Price Forecast, US\$/oz		\$5.00	\$14.00	\$23.00	\$32.00	
Long-Term Gold Price Forecast, US\$/oz		\$550	\$850	\$1,350	\$1,650	
Long-Term C\$/US\$ FX Rate		1.20	1.10	1.00	0.90	
Fully Financed F/D Shares, millions	219	219	219	219	219	219
<b>Corporate Adjustments (fully financed)</b>						
Corporate Adjustments, US\$M	\$24	\$24	\$24	\$24	\$24	\$24
Corporate Adjustments, C\$ per F/D share	\$0.11	\$0.13	\$0.12	\$0.11	\$0.10	\$0.11
<b>Bracemac-McLeod Project NAV(10%; based on 35% project ownership)</b>						
After-Tax Project NAV(10%), US\$M	\$23	(\$67)	(\$11)	\$45	\$98	\$4
After-Tax Project NAV(10%), C\$ per F/D share	\$0.10	(\$0.37)	(\$0.06)	\$0.20	\$0.40	\$0.02
<b>Subtotal 'Base Case' Valuation (corporate adjustments + projects)</b>						
Subtotal 'Base Case' After-Tax Corporate NAV(10%), US\$M	\$47	(\$43)	\$13	\$69	\$122	\$28
Subtotal 'Base Case' After-Tax Corporate NAV(10%), C\$ per F/D share	\$0.21	(\$0.24)	\$0.07	\$0.32	\$0.50	\$0.13
<b>Resource + Exploration Upside Credit</b>						
Resource Credit, US\$M	\$8	\$8	\$8	\$8	\$8	\$8
Resource Credit, C\$ per F/D share	\$0.03	\$0.04	\$0.04	\$0.04	\$0.03	\$0.04
Regional Exploration Upside Credit, US\$M	\$5	\$5	\$5	\$5	\$5	\$5
Regional Exploration Upside Credit, C\$ per F/D share	\$0.02	\$0.03	\$0.03	\$0.02	\$0.02	\$0.02
Total Resource + Exploration Upside Credit, US\$M	\$13	\$13	\$13	\$13	\$13	\$13
Total Resource + Exploration Upside Credit, C\$ per F/D share	\$0.06	\$0.07	\$0.06	\$0.06	\$0.05	\$0.06
<b>Total Valuation (base case + resource/exploration)</b>						
Total After-Tax Corporate NAV(10%), US\$M	\$60	(\$31)	\$26	\$82	\$135	\$40
Total After-Tax Corporate NAV(10%), C\$ per F/D share	\$0.27	(\$0.17)	\$0.13	\$0.37	\$0.56	\$0.19
<b>Implied Target Price @ 1.0x After-Tax Corporate NAV(10%), C\$</b>	\$0.30	\$0.00	\$0.15	\$0.40	\$0.60	\$0.20
2013E CFPS, US\$	\$0.09	(\$0.12)	\$0.02	\$0.12	\$0.20	\$0.06
2014E CFPS, US\$	\$0.10	(\$0.13)	\$0.03	\$0.13	\$0.23	\$0.06
<b>Implied Target Price @ 4.5x 2013E CFPS, C\$</b>	\$0.40	\$0.00	\$0.10	\$0.55	\$0.90	\$0.30

Haywood model is based on long-term forecast metal prices of US\$1.10/lb zinc, US\$3.00/lb copper, US\$20.00/oz silver, and US\$1,150/oz gold.

Haywood model is based on a current C\$/US\$ FX rate of 0.98, a 2013E C\$/US\$ FX rate of 1.00, and a long-term C\$/US\$ FX rate of 1.06.

Spot pricing is based on metals prices of US\$0.89/lb zinc, US\$3.39/lb copper, US\$32.10/oz silver, US\$1,711/oz gold, and a C\$/US\$ FX rate of 1.04.

Measured and indicated resource credit is based on in situ metal prices of US\$0.04/lb zinc, US\$0.06/lb copper, US\$1.00/oz silver, and US\$10.00/oz gold.

Inferred resource credit is based on in situ metal prices of US\$0.02/lb zinc, US\$0.03/lb copper, US\$0.50/oz silver, and US\$5.00/oz gold.

Source: Haywood Securities



## Bracemac-McLeod Generates \$0.10 per Share in Attributable After-Tax Project NAV<sub>10%</sub>

Donner's flagship asset is a 35% interest in the advanced-stage Bracemac-McLeod zinc-copper project located within the Matagami base metals mining camp, in the Abitibi Greenstone Belt of north-central Quebec. **Xstrata, Donner's 65% project partner and 'operator', is heavily invested in the Matagami district, and has an inherent interest in achieving timely production start-up at Bracemac-McLeod.** In July 2010, the major announced plans to begin advancing development/construction initiatives at the project—well before Donner had formally earned an interest in the associated joint-venture area (JVA; see below). This decision was prompted by the recognition of limited reserve life at Xstrata's neighbouring Perseverance mine, which is expected to be fully depleted by early 2013, and the potential supply 'gap' the Company's Matagami mill faced. **Xstrata intends to bring the Bracemac-McLeod project on line to replace Perseverance production.**

Bracemac-McLeod's development plans are detailed in a September 2010 feasibility study published by Genivar. The feasibility study is based on a 2,500-tonne-per-day (life-of-mine average) ramp-accessed underground mining operation (long-hole plus rock-backfilled stoping) underpinned by a 3.73 million-tonne proven and probable reserve grading 9.60% zinc, 1.26% copper, 28.25 grams per tonne silver, and 0.43 grams per tonne gold. The 4-year mine plan is expected to produce 606 million pounds of zinc, 83 million pounds of copper, 1.5 million ounces of silver, and 13,000 ounces of gold (payable) at an average total zinc cash cost of US\$0.42 per pound (net of credits). Run-of-mine ore will be hauled ~4 kilometres to Xstrata's 100% owned Matagami mill/concentrator, which has the capacity to treat up to 2,950 tonnes of ore per day utilizing standard off-the-shelf froth flotation. Donner will be charged a 'fee' for use of Xstrata's Matagami mill and tailings facilities. Bracemac-McLeod ore processing is expected to produce a 48% zinc concentrate (92% zinc recovery) and a separate 21% copper concentrate (86% copper recovery; note silver and gold by-products are expected to report to the copper concentrate; 47% and 29% recoveries respectively).

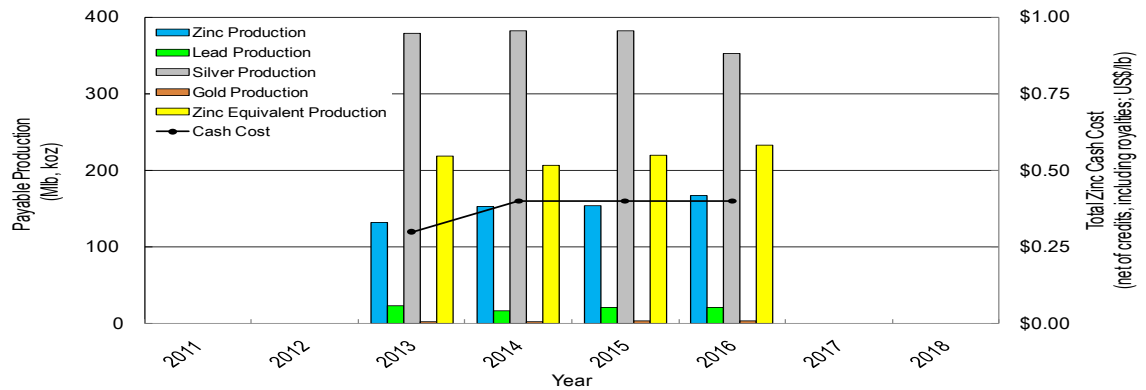
The September 2010 feasibility study includes a US\$164 million life-of-mine capital-cost estimate (100% basis; including a 10% contingency), of which US\$116 million will be incurred before production start-up. Headline economics include a US\$3.4 million after-tax project NAV<sub>7%</sub> (100% basis) and an 8.1% after-tax project internal rate of return (IRR) at long-term zinc, copper, silver, and gold prices of US\$0.80 per pound, US\$2.50 per pound, US\$12.00 per ounce, and US\$1,000 per ounce respectively. **Bracemac-McLeod's economics are significantly leveraged to the zinc price. A 20% increase in long-term zinc pricing to US\$0.96 per pound (coupled with 20% increases to by-product copper, silver, and gold pricing) increases the project's feasibility study after-tax NAV<sub>7%</sub> to US\$70 million (100% basis).**

We have partially mitigated risk associated with potential cost creep that continues to impact the global mining industry through a modelled US\$125 million pre-production initial capital cost (100% basis). **That said, we acknowledge that Donner is partially sheltered from initial capital-cost creep given that Bracemac-McLeod's development plans include the utilization of Xstrata's existing Matagami mill/concentrator and tailings facility—essentially valued at \$92 million (including a 35% contingency) in the project's September 2010 feasibility study.** We have also applied a modest ~12% contingency to our on-site operating costs (mining, processing, and administrative), and our formal valuation includes a life-of-mine average total zinc cash cost of US\$0.40 per pound net of credits including royalties (payable; on-site operating cost of \$85.00 per tonne milled; 100% basis). We have also applied a 10% discount rate in our after-tax NAV calculation, in line with Haywood's standard practice for base metals projects with completed National Instrument 43-101 compliant technical reports.



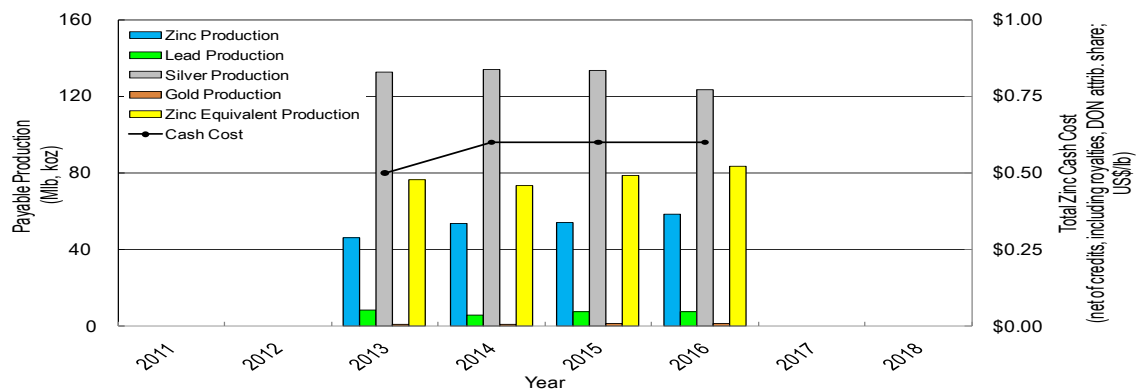


**Bracemac-McLeod Production Profile (Haywood model; 100% basis)**



Source: Haywood Securities

**Bracemac-McLeod Production Profile (Haywood model; 35% attributable basis)**



Source: Haywood Securities

**Bracemac-McLeod Operating-Cost Breakdown (feasibility study versus Haywood model)**

	Genivar September 2010 Feasibility Study			Haywood Model		
	US\$ millions	C\$/tonne milled	US\$/lb Zn payable	US\$ millions	C\$/tonne milled	US\$/lb Zn payable
Mine Operations	\$132	\$37.51	\$0.22	\$135	\$38.00	\$0.25
Processing Operations	\$52	\$14.91	\$0.09	\$65	\$18.00	\$0.15
Maintenance	\$25	\$7.06	\$0.04	\$25	\$7.50	\$0.05
Administration	\$34	\$9.70	\$0.06	\$35	\$10.00	\$0.10
Matagami Milling Fee	-	-	-	\$10	\$3.00	\$0.05
Amortization of Stand-Alone Mill Fee	\$24	\$6.74	\$0.04	\$25	\$7.00	\$0.05
<b>Total On-Site Operating Cost</b>	<b>\$267</b>	<b>\$75.90</b>	<b>\$0.44</b>	<b>\$290</b>	<b>\$85.00</b>	<b>\$0.50</b>
Off Site Charges	\$185	\$52.64	\$0.31	\$230	\$70.00	\$0.40
<b>Total Operating Cost</b>	<b>\$452</b>	<b>\$128.54</b>	<b>\$0.75</b>	<b>\$520</b>	<b>\$155.00</b>	<b>\$0.90</b>
By-Product Credits	(\$196)	(\$55.83)	(\$0.32)	(\$310)	(\$90.00)	(\$0.50)
<b>Total Operating Cost (net of credits)</b>	<b>\$256</b>	<b>\$72.72</b>	<b>\$0.42</b>	<b>-</b>	<b>-</b>	<b>\$0.40</b>

Haywood model assumes an additional 10% milling fee is applicable to Donner's share of production. Numbers may not add exactly due to rounding.

Source: Donner Metals and Haywood Securities



Our valuation is based on Haywood’s formal metal price forecast including zinc at US\$1.05 per pound in 2012, US\$1.15 per pound in 2013 to 2015, and an arguably conservative long-term (+2016) price of US\$1.10 per pound (refer to *Radar Screen*, September 8, 2011). The valuation generates an attributable pre-financed after-tax project NAV<sub>10%</sub> of US\$23 million (35% interest; \$0.13 per current fully diluted share; after-tax internal rate of return [IRR] of 11%). We typically allocate attributable project debt to ‘corporate adjustments’ in our ‘financed’ valuations. However, we do not anticipate Donner will utilize any debt to fund its share of pre-production initial capital costs at Bracemac-McLeod. That said, we have modelled a modest \$10 million equity financing priced at \$0.25 per share in Q1/12 (25% dilution) to fully cover the Company’s outstanding pre-production initial capital-cost obligations. **Hence, on a ‘fully financed’ basis, our modelled attributable after-tax Bracemac-McLeod project NAV<sub>10%</sub> equates to \$0.10 per fully diluted share.**

**Bracemac-McLeod Production, Realized Pricing, and Operating Cost Breakdown (Haywood model)**

	Xstrata Share (65% Interest)	Donner Share (35% Interest)	Bracemac-McLeod (100% basis)
<b>Production</b>			
LOM Total Zinc Production (payable), Mlb	394	212	606
LOM Average Realized Zinc Price (Haywood Model); US\$/lb	\$1.14	\$1.14	\$1.14
LOM Total Copper Production (payable), Mlb	54	29	83
LOM Average Realized Copper Price (Haywood Model); US\$/lb	\$3.14	\$1.97	\$2.73
LOM Total Silver Production (payable), koz	973	524	1,497
LOM Average Realized Silver Price (Haywood Model); US\$/oz	\$28.58	\$17.45	\$24.68
LOM Total Gold Production (payable), koz	8	5	13
LOM Average Realized Gold Price (Haywood Model); US\$/oz	\$1,553	\$952	\$1,343
<b>Operating Costs</b>			
Mine Operations, C\$/tonne milled	\$38.00	\$38.00	\$38.00
Processing Operations, C\$/tonne milled	\$18.00	\$18.00	\$18.00
Maintenance, C\$/tonne milled	\$7.50	\$7.50	\$7.50
Administration, C\$/tonne milled	\$10.00	\$10.00	\$10.00
Matagami Milling Fee, C\$/tonne milled	-	\$7.50	\$3.00
Amortization of Stand-Alone Mill Fee, C\$/tonne milled	-	\$19.50	\$7.00
<b>On-site Operating Cost, C\$/tonne milled</b>	<b>\$75.00</b>	<b>\$100.00</b>	<b>\$85.00</b>
Total Zinc Cash Cost (before by-product credits), US\$/lb	\$0.80	\$1.00	\$0.90
By-Product Credits, US\$/lb	(\$0.55)	(\$0.45)	(\$0.50)
<b>Total Zinc Cash Cost (net of by-product credits), US\$/lb</b>	<b>\$0.30</b>	<b>\$0.60</b>	<b>\$0.40</b>

*Donner’s attributable realized copper, silver, and gold prices reflect Sandstorm Metal Purchase Agreement metrics.*

*Numbers may not add exactly due to rounding.*

Source: Haywood Securities



Bracemac-McLeod Project Parameters (100% basis; feasibility study versus Haywood model)

	Genivar September 2010 Feasibility Study	Haywood Model	Haywood vs. Feasibility Study Δ Parameter
<b>Mineable Reserve</b>			
Proven and Probable Reserve (100% basis), tonnes 000's	3,728	3,728	-
Proven and Probable Reserve Zinc Grade, %	9.6%	9.6%	-
Proven and Probable Reserve Copper Grade, %	1.3%	1.3%	-
Proven and Probable Reserve Silver Grade, g/t	28.3	28.3	-
Proven and Probable Reserve Gold Grade, g/t	0.4	0.4	-
Inferred Resource (100% basis), tonnes 000's	2,628	2,628	-
Inferred Resource Zinc Grade, %	8.8%	8.8%	-
Inferred Resource Copper Grade, %	1.3%	1.3%	-
Inferred Resource Silver Grade, g/t	38.8	38.8	-
Inferred Resource Gold Grade, g/t	1.1	1.1	-
<b>Timing</b>			
Commercial Production Start-up (milling), year	early 2013	early 2013	-
Mine Life, years	4	4	-
Mine / Mill Type	owner operated ramp accessed underground mining / froth flotation at Xstrata's Matagami mill	owner operated ramp accessed underground mining / froth flotation at Xstrata's Matagami mill	-
<b>Production</b>			
Nameplate Ore Throughput (mill; 100% basis), Mtpa	0.9	0.9	-
Nameplate Ore Throughput (mill; 100% basis), tpd	2,500	2,500	-
LOM Average Zinc Head Grade, %	9.7%	9.7%	-
LOM Average Copper Head Grade, %	1.2%	1.2%	-
LOM Average Silver Head Grade, g/t	28.2	28.2	-
LOM Average Gold Head Grade, g/t	0.4	0.4	-
LOM Average Zinc Concentrate Zinc Grade, %	48%	48%	-
LOM Average Copper Concentrate Copper Grade, %	20%	20%	-
LOM Average Copper Concentrate Silver Grade, %	248	248	-
LOM Average Copper Concentrate Gold Grade, %	2.5	2.5	-
LOM Average Zinc Recovery to Zinc Concentrate, %	92%	92%	-
LOM Average Copper Recovery to Copper Concentrate, %	86%	86%	-
LOM Average Silver Recovery to Copper Concentrate, %	47%	47%	-
LOM Average Gold Recovery to Copper Concentrate, %	29%	29%	-
LOM Annual Average Zinc Production (payable; 100% basis), Mlb	152	152	-
LOM Annual Average Copper Production (payable; 100% basis), Mlb	21	21	-
LOM Annual Average Silver Production (payable; 100% basis), Moz	374	374	-
LOM Annual Average Gold Production (payable; 100% basis), Moz	3	3	-
LOM Total Zinc Production (payable; 100% basis), Mlb	606	606	-
LOM Total Copper Production (payable; 100% basis), Mlb	83	83	-
LOM Total Silver Production (payable; 100% basis), koz	1,497	1,497	-
LOM Total Gold Production (payable; 100% basis), koz	13	13	-
<b>Operating Costs</b>			
LOM Average Operating Cost (on-site), C\$/tonne milled	\$75.90	\$85.00	12%
LOM Average Total Cash Cost (net of credits), US\$/lb Zn payable	\$0.42	\$0.40	(5%)
<b>Capital Costs</b>			
Initial Capital Cost (100% basis), US\$M	\$116	\$125	8%
LOM Total Capital Cost (incl. sustaining capital; 100% basis), US\$M	\$164	\$175	7%
<b>Project Valuation</b>			
Long-Term Forecast Zinc Price, US\$/lb	\$0.80	\$1.10	38%
Long-Term Forecast Copper Price, US\$/lb	\$2.50	\$3.00	20%
Long-Term Forecast Silver Price, US\$/oz	\$12.00	\$20.00	67%
Long-Term Forecast Silver Price, US\$/oz	\$1,000	\$1,150	15%
Long-Term C\$/US\$ FX Rate	\$1.04	\$1.06	2%
Project NAV Discount Rate, %	8%	10%	25%
Pre-Tax Project NAV (100% basis), US\$M	\$23	\$126	440%
Pre-Tax Project IRR (100% basis), %	14%	52%	277%
After-Tax Project NAV (100% basis), US\$M	\$3	\$55	1,518%
After-Tax Project IRR (100% basis), %	8%	31%	279%

Haywood project valuation is based on a 2009 forward basis (i.e., 4 years of preproduction) as per Bracemac-McLeod's September 2010 feasibility study.

Source: Donner Metals and Haywood Securities



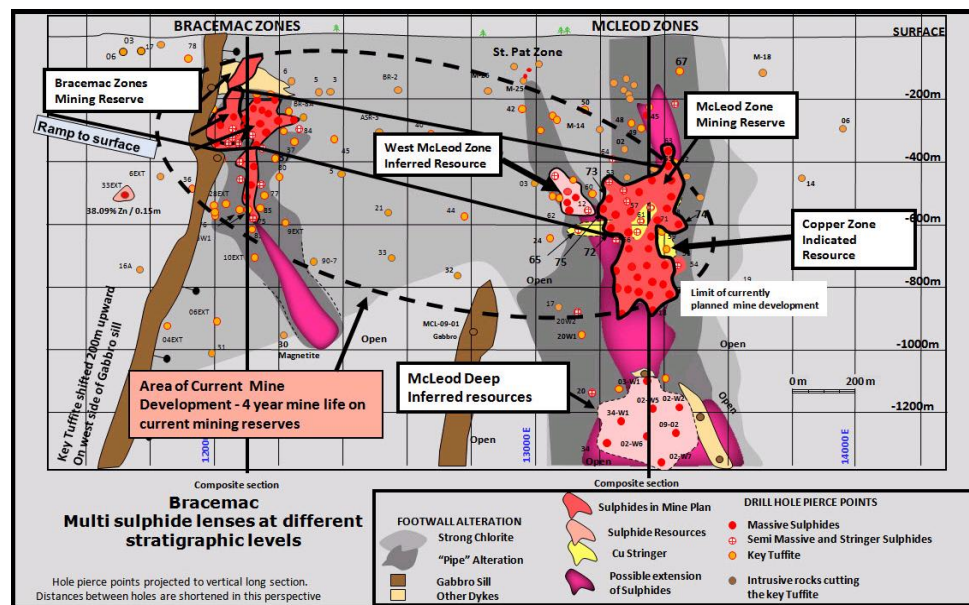
Our model is based on initial Bracemac-McLeod production start-up in early 2013. We note that a 6-month delay would decrease our fully financed after-tax project NAV<sub>10%</sub> by approximately US\$5.0 million, or \$0.02 per fully diluted share (-20%), and would critically impact our 2013E CFPS, lowering it to approximately US\$0.04 per share (-56%). Based on our formal valuation metric of 4.5x 2013E CFPS, our implied target price would drop to ~\$0.18. However, we believe that a 6-month delay is highly unlikely given development progress at the project to date (see below) and Xstrata’s vested interest in achieving timely production start-up; namely, continuous ore feed to the Matagami mill during/after the closure of its Perseverance mine in early 2013. Furthermore, we note supplemental feed will likely be available (if needed) from the open-pit Phelp Dodge (PD1) deposit if a supply gap emerges before Bracemac-McLeod production start-up. That said, we have not included PD1 production in our formal valuation given the marginal economics anticipated from this lower grade material (see below).

### Bracemac-McLeod’s Reserve-Life Upside

Bracemac-McLeod’s feasibility study is underpinned by an optically short 4-year reserve life. However, we note that the deposits also include a 2.63 million-tonne National Instrument 43-101 compliant inferred resource (see below)—a significant portion of which we anticipate will convert to reserves with additional (underground) drilling. This inferred resource includes 2.47 million tonnes located approximately 175 metres down dip from McLeod’s reserve (see below). Continuity between McLeod’s reserve and this ‘McLeod Deep’ inferred resource remains to be drill tested. Nevertheless, we believe the stage is set for significant reserve-life enhancement at Bracemac-McLeod through the delineation of McLeod Deep. Ultimately, we would not be surprised to see the mine provide the Matagami mill with +8 years of ore feed.

For illustrative purposes, a 4 million-tonne ‘mineable’ resource addition to our Bracemac-McLeod modelled mine plan (at current reserve grades) increases (1) the project’s mine life to 8.5 years, and (2) Donner’s attributable fully financed after-tax project NAV<sub>10%</sub> to ~US\$54 million, or \$0.24 per fully diluted share (+140%; maintaining a similar annualized sustaining capital and operating-cost profile as modelled for our ‘base-case’ 4-year mine-plan formal valuation). As noted above, our formal target price is based on 2013E CFPS and is therefore not impacted by extended mine life. Nevertheless, we view the scenario as a reasonable proxy for Bracemac-McLeod’s ‘true’ value.

### Bracemac-McLeod Section



Source: Donner Metals



## Matagami Mill



Source: Haywood Securities

### Modest Equity Financing Modelled to Fully Satisfy Bracemac-McLeod Capex Obligations

Donner has addressed most of its Bracemac-McLeod ~\$40 million pre-production initial capital-cost obligations through a US\$25 million financing and Metal Purchase Agreement with Sandstorm in July 2011, and a series of smaller flow-through equity financings (see below). We expect the Company to exit 2011 with a ~\$7 million cash balance. Furthermore, Donner expects to collect ~\$6 million in exploration-expenditure related rebates from the Quebec government through Q4/12. However, the Company's remaining share of preproduction capital cost obligations is expected to total ~\$20 million in 2012. **Hence, our model assumes that Donner will raise an additional \$10 million through an equity financing priced at \$0.25 per share in Q1/12 (40 million shares; 25% dilution).** We acknowledge that this amount exceeds the Company's remaining pre-production initial capital-cost obligations. However, it is sufficient to trigger covenants associated with Sandstorm's US\$5.0 million second purchase deposit (see below) and provide additional working capital to fund ongoing exploration at Matagami. **We note that a change in an assumed equity financing price of \$0.10 per share impacts Donner's fully financed after-tax corporate NAV<sub>10%</sub> in our model by about \$0.02 per share (7%).** Given Donner's near-producer status, our formal valuation is based on a 4.5x multiple to 2013E CFPS of US\$0.09. A change of US\$0.10 per share in the assumed equity financing price also impacts our 2013E CFPS and associated target price by US\$0.01 and \$0.05 per share respectively.





**Donner Attributable Preproduction Initial CAPEX 'Cash Flow' Breakdown (Haywood model)**

**Funding Available**

2011E Year-End Cash Balance, C\$M	~\$7
Q1/12 Equity Financing, C\$M	\$10
Q2/12 Sandstorm Purchase Deposit No.2, C\$M	\$5
Q4/12 Quebec Exploration Rebates, C\$M	~\$6
<b>Total 2012E Funding Available, C\$M</b>	<b>~\$28</b>

**Funding Required**

Attributable Preproduction Initial Capital Cost Funding Required, C\$M	(\$40)
Attributable Preproduction Initial Capital Cost Funded Through August 31, 2011, C\$M	\$14
Additional Attributable Preproduction Initial Capital Cost Funded Through December 31, 2011, C\$M	~\$6
<b>2012E Attributable Preproduction Initial Capital Cost Funding Requirement, C\$M</b>	<b>~(\$20)</b>

**Net 'Cash' Position**

<b>Net 'Cash' Position at Production Start-Up, C\$M</b>	<b>~\$8</b>
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C\$/US\$ FX Rate: 0.98

Source: Haywood Securities

**Equity Financing Assumptions (Haywood model)**

	Year	Quarter	Amount (US\$M)	Price (\$/share)	Shares (millions)
Current O/S Share Capital					161
Current F/D Share Capital					174
<b>Modelled Equity Financing</b>	<b>2012</b>	<b>Q1</b>	<b>C\$10.0</b>	<b>C\$0.25</b>	<b>40</b>
<b>Sandstorm Metal Purchase Agreement Purchase Deposit No. 2</b>	<b>2012</b>	<b>Q2</b>	<b>US\$1.4</b>	<b>C\$0.25</b>	<b>5</b>
Modelled Fully Financed F/D Share Capital					219

Source: Haywood Securities

**Impact of Dilution on Valuation**

Issue Price (C\$)	Shares Issued (million)	Fully Financed F/D Shares (million)	Fully Financed After-Tax Corporate NAV <sub>10%</sub> per F/D Share (C\$)	Implied Target Price per Share (C\$)
\$0.45	22	201	\$0.29	\$0.30
\$0.35	29	208	\$0.28	\$0.30
<b>\$0.25</b>	<b>40</b>	<b>219</b>	<b>\$0.27</b>	<b>\$0.30</b>
\$0.15	67	246	\$0.24	\$0.25
\$0.05	200	379	\$0.15	\$0.20

Haywood model assumes a US\$10M equity financing to fund Donner's remaining attributable portion of Bracemac-McLeod's US\$125M initial capital cost (100% basis). Implied target price per share is based on a 1.0x multiple to fully financed after-tax corporate NAV<sub>10%</sub>. C\$/US\$ FX Rate: 0.98

Source: Haywood Securities



**Resource Credit Contributes \$0.06 per Share to Donner's After-Tax Corporate NAV<sub>10%</sub>**

Our fully financed after-tax corporate NAV<sub>10%</sub> of US\$60 million, or \$0.27 per fully diluted share, incorporates modest 'in situ' credit for Bracemac-McLeod's (including McLeod Deep) National Instrument 43-101 compliant resources that are not included in our modelled mine plan, and for resources associated with the Phelps Dodge 1 (PD1) deposit; namely, US\$0.04 per pound of additional contained zinc in the measured and indicated category and US\$0.02 per pound in the inferred category. These metrics are in line with market valuations typically received by Donner's peer group of advanced-stage base metals development companies. Our fully financed after-tax corporate NAV<sub>10%</sub> also includes a modest credit of US\$5 million, or \$0.02 per fully diluted share, for regional exploration upside potential at Matagami—an arguably conservative figure given the extensive list of new (untested) good-quality exploration targets Donner has identified, coupled with the Company's discovery track record to date. **New discoveries will also leverage Matagami's existing infrastructure that provides a well-established cost structure for development.**

Donner Resource Statement (National Instrument 43-101 compliant)

	Tonnes (000's)	Zn Grade (%)	Cu Grade (%)	Ag Grade (g/t)	Au Grade (g/t)	ZnEq Grade (%)	Zinc (Mlb)	Copper (Mlb)	Silver (Moz)	Gold (Moz)	ZnEq (Mlb)	EV/lb Zn (US\$/lb)	EV/lb ZnEq (US\$/lb)
Haywood Model Bracemac-McLeod Mineable (LOM)	3,657	9.67%	1.24%	28.23	0.43	14.47%	780	100	3.3	0.1	1,166	-	-
Haywood Model Bracemac-McLeod Payable (LOM)	-	-	-	-	-	-	606	83	1.50	-	861	-	-
Bracemac-McLeod P&P Reserve	3,728	9.60%	1.26%	28.25	0.43	14.44%	789	104	3.4	0.1	1,187	-	-
McLeod Deep P&P Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
PD-1 P&P Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Reserve</b>	<b>3,728</b>	<b>9.60%</b>	<b>1.26%</b>	<b>28.25</b>	<b>0.43</b>	<b>14.44%</b>	<b>789</b>	<b>104</b>	<b>3.4</b>	<b>0.1</b>	<b>1,187</b>	<b>-</b>	<b>-</b>
<b>Attributable Reserve</b>	<b>1,305</b>	<b>9.60%</b>	<b>1.26%</b>	<b>28.25</b>	<b>0.43</b>	<b>14.44%</b>	<b>276</b>	<b>36</b>	<b>1.2</b>	<b>0.0</b>	<b>415</b>	<b>\$0.070</b>	<b>\$0.047</b>
Additional Bracemac-McLeod M&I Resource	244	0.96%	1.25%	7.80	0.19	4.87%	5	7	0.1	0.0	26	-	-
Additional McLeod Deep M&I Resource	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional PD-1 M&I Resource	1,737	4.55%	1.16%	19.88	-	8.24%	174	44	1.1	-	316	-	-
<b>Total Additional M&amp;I Resource</b>	<b>1,981</b>	<b>4.11%</b>	<b>1.17%</b>	<b>18.39</b>	<b>0.02</b>	<b>7.83%</b>	<b>179</b>	<b>51</b>	<b>1.2</b>	<b>0.0</b>	<b>342</b>	<b>-</b>	<b>-</b>
Bracemac-McLeod Inferred Resource	158	2.17%	2.63%	23.76	0.19	10.26%	8	9	0.1	0.0	36	-	-
McLeod Deep Inferred Resource	2,470	9.21%	1.22%	39.81	1.12	15.30%	502	66	3.2	0.1	833	-	-
PD-1 Inferred Resource	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Inferred Resource</b>	<b>2,628</b>	<b>8.79%</b>	<b>1.31%</b>	<b>38.84</b>	<b>1.06</b>	<b>15.01%</b>	<b>509</b>	<b>76</b>	<b>3.3</b>	<b>0.1</b>	<b>870</b>	<b>-</b>	<b>-</b>
<b>Total Reserve and Resource</b>	<b>8,338</b>	<b>8.04%</b>	<b>1.25%</b>	<b>29.25</b>	<b>0.53</b>	<b>13.05%</b>	<b>1,478</b>	<b>231</b>	<b>7.8</b>	<b>0.1</b>	<b>2,398</b>	<b>-</b>	<b>-</b>
<b>Attributable Reserve and Resource</b>	<b>2,918</b>	<b>8.04%</b>	<b>1.25%</b>	<b>29.25</b>	<b>0.53</b>	<b>13.05%</b>	<b>517</b>	<b>81</b>	<b>2.7</b>	<b>0.0</b>	<b>839</b>	<b>\$0.038</b>	<b>\$0.023</b>

ZnEq = zinc equivalent, EV = enterprise value (market capitalization - working capital + debt).  
 Attributable values are based on 35% Bracemac-McLeod and 35% (projected) PD-1 ownership.  
 Measured & indicated resource is additional to proven and probable reserve.

ZnEq zinc price: US\$1.10/lb  
 ZnEq copper price: US\$3.00/lb  
 ZnEq silver price: US\$20.00/oz  
 ZnEq gold price: US\$1,150/oz

Source: Donner Metals and Haywood Securities



## Bracemac-McLeod Consolidation – Xstrata Patiently Weighing Its Options?

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Despite Xstrata's toehold on the Matagami district, including the Bracemac-McLeod project, Donner arguably remains a prime acquisition target given the lack of large advanced-stage zinc projects in a market facing a considerable medium-term supply issue (mine closures; see below). The anticipated supply shortage is reflected, in part, by recent consolidation within the zinc space, including the acquisitions of both Farallon and Breakwater by Nyrstar, a fully integrated global zinc company, and the purchase of Sabina Gold & Silver's Hackett River project by Xstrata. We note that Nyrstar's June 2011 offer valued Breakwater at a 44% premium to market—arguably a sign that smelters/refiners are anticipating a sharp decline in available feedstock. We also note (1) Trafigura's recent offer, at a 39% premium to market, to acquire Iberian Minerals (IZN-T), given the latter's Aguas Tenidas polymetallic mine in Spain that is expected to produce 78 million pounds of zinc in concentrate next year, and (2) Teck's 'commitment' to zinc, as the metal accounted for 25% of the Company's Q3/11A gross revenue and commanded 22% of its US\$56 million 2010A exploration budget.

We acknowledge that zinc refiners looking to secure concentrate feed would likely be deterred from making an offer for Donner given Xstrata's joint-venture right to process, smelt, refine, and market any ore mined in Matagami. That said, Donner's attributable zinc production profile at Bracemac-McLeod, which will average ~53 million payable pounds per annum, likely represents an attractive 'proposition' for a number of mid-tier base metals companies looking for additional exposure to zinc. The 'hands-off' nature of Donner's interest in the mine is arguably a selling point for an acquirer looking to 'sit back and collect a cheque'. **However, in terms of merger and acquisition considerations, the most obvious question pertains to Xstrata's ownership intentions at Bracemac-McLeod. We would not be surprised to see the major consolidate its ownership in the mine, either by purchasing Donner's project interest or Donner directly, after the Company has met its pre-production initial capital-cost funding requirements (see above). Note that Donner's 35% interest in the Bracemac-McLeod project will be reduced to a 2.0% net smelter return (NSR) royalty (1.0% of which can be purchased by Xstrata for \$1.0 million) if the Company is unable to fund its remaining pre-production initial capital-cost obligations. Hence, Donner's 'worst case' scenario could be considered a 'best case' scenario for Xstrata—a consideration which, to date, has arguably prompted Xstrata's 'patience'.** We note that Xstrata Zinc, headquartered in Madrid, is one of the world's largest fully integrated zinc producers, with related operations in Australia, Canada, Peru, Spain, and the United Kingdom. We also note that Glencore, which earlier this year claimed to control ~60% of the world's openly traded zinc market, owns a 34% equity interest in Xstrata.



## Medium-Term Mine Closures Expected to Prompt Strong Zinc Pricing

**The zinc market is facing a considerable medium-term supply issue, as there are arguably no new large advanced-stage development projects poised to replace production capacity from a number of key mine closures expected within the next 5 years.** Key closures include Xstrata's Brunswick mine in 2012 (~470 million pounds of annual zinc production, representing ~1.7% of 2011E global zinc mine production) and Minmetals' Century mine in 2014 (1,120 million pounds of annual zinc production, representing ~4.0% of 2011E global zinc mine production). **Mine closures anticipated through 2015 will remove approximately 2,790 million pounds of annual zinc production from the market, equivalent to approximately 10% of global supply.**

### Key Near-Term Zinc Mine Closures

Significant Zinc Mine Closure / Owner	Annual Zinc Production (Mlb)	Percentage of 2011E Global Zinc Mine Production (%)	Final Year of Full Production
Perseverance / Xstrata	290	1.0%	2012
Brunswick / Xstrata	470	1.7%	2012
Lisheen / Vedanta	370	1.3%	2013
Century / MMG	1,120	4.0%	2014
Other Significant Zinc Producers	540	1.9%	2011 - 2015
<b>Total Significant Zinc Mine Closure</b>	<b>2,790</b>	<b>9.9%</b>	<b>2011 - 2015</b>

*GFMS July 2011 estimate of 2011 global zinc mine production is 28,274 Mlb.*

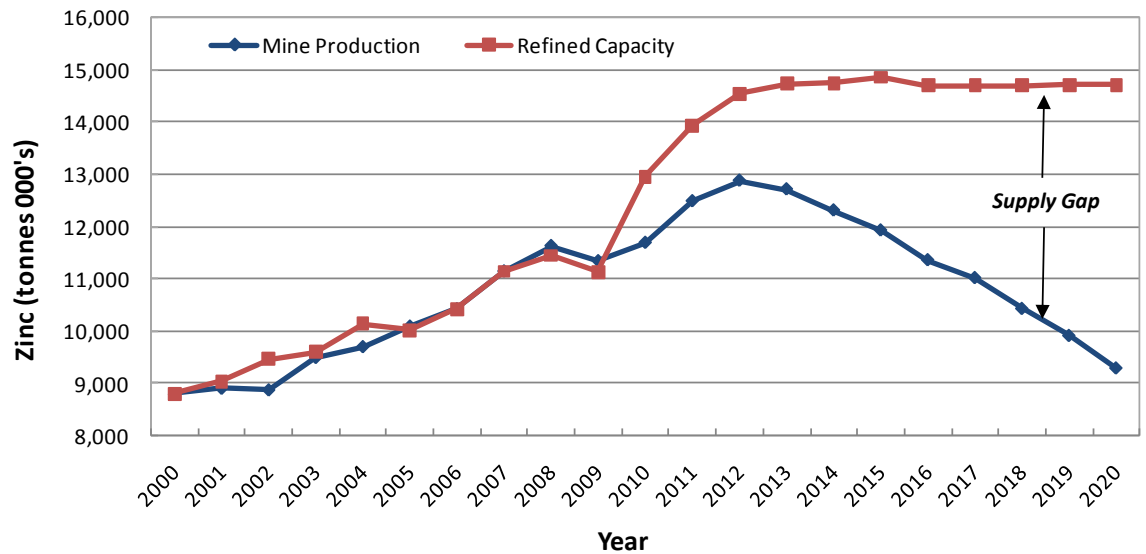
Source: GFMS and Haywood Securities

Zinc pricing has plunged over the past month on fears of a global recession, in part following formal 'acknowledgement' of a problem from the U.S. Federal Reserve: "significant downside risks to the economic outlook, including strains in global financial markets". Concern extends to China, where decreased gross domestic product (GDP) (2011E now 9.5%, down from 9.6%; 2012E now 9.0%, down from 9.5%) and weak Purchasing Managers Index (PMI) projections (below 50 for the third consecutive month) suggest the country may not be able to 'backstop' economic turmoil in Europe and the United States. Zinc stockpiles have dropped approximately 7% from an all-time high of ~1.3 million tonnes, but still remain at levels more than double the inventories' 4-year average.

However, the Australian Bureau of Agricultural and Resource Economics and Sciences, the state forecaster, anticipates world steel production will increase ~7% to 1.6 billion tonnes next year, fuelled in part by a 6% increase in Chinese consumption (to 664 million tonnes) in 2012. Furthermore, we note that zinc mines in China, which account for approximately 29% of global supply, require as much as ~US\$1.00 per pound to break even, which may prompt the country to offset higher cost domestic production with cheaper imported concentrate/metal. In fact, in August, China's zinc-ore imports had already risen close to a 12-month high. Beijing Antaika Information Development Co., a state-backed research group, anticipates Chinese zinc demand could reach ~6.6 million tonnes in 2015, compared with ~4.8 million tonnes in 2010.

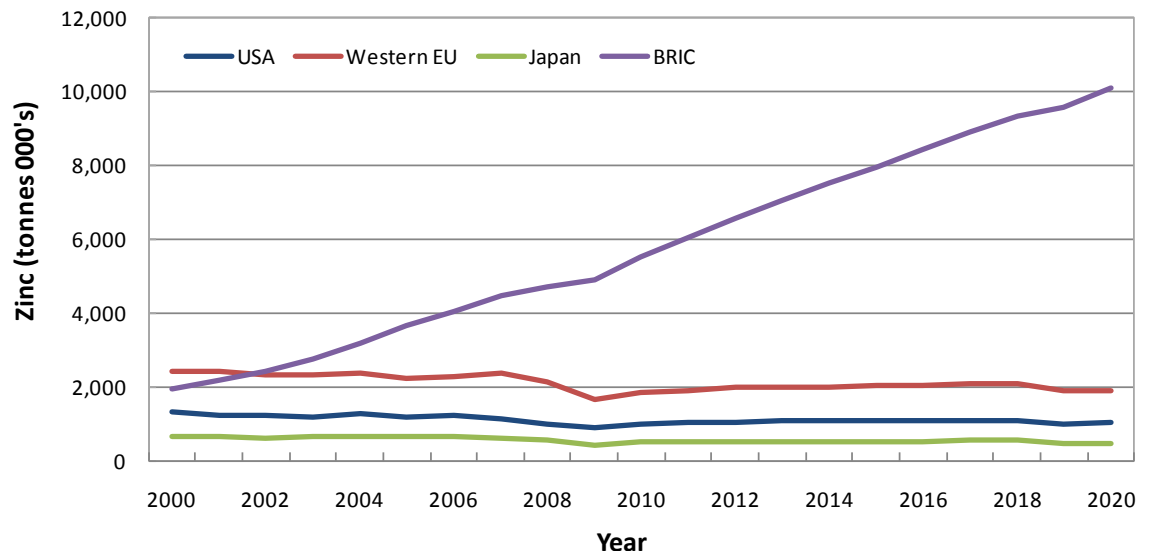


Global Refined Zinc Capacity Versus Mine Supply



Source: Teck Resources

Zinc Demand



Source: Teck Resources

Donner is well positioned to take advantage of a considerable supply shortfall, with production start-up at Bracemac-McLeod targeted in early 2013. We note that Bracemac-McLeod's economics are highly leveraged to the zinc price. An increase of US\$0.10 per pound in long-term zinc pricing (+9%) adds approximately US\$8 million, or \$0.04 per share (+15%), to Donner's fully financed after-tax corporate NAV<sub>10%</sub> in our model. A similar increase of US\$0.10 per pound in our forecast 2013 zinc price raises our 2013E CFPS by approximately \$0.01 per share (+11%), boosting our implied target price to \$0.45 (+13%).





## Peer Comparison

### Current Discount to Peer Group Highlights Valuation Upside

We generally use a NAV-based metric to value development-stage base metals companies. Donner's peer group of advanced-stage development through producing base metals companies currently trades at a 0.7x to +1.2x multiple to after-tax corporate NAV, compared with Donner at 0.7x. **However, established base metals producers typically command a 'premium' CFPS-based market valuation. Given Bracemac-McLeod's early 2013 production start-up target, we have based our target price of \$0.40 per share on a (discounted) 4.5x multiple to Donner's 2013E CFPS of US\$0.09 (Haywood model)—an arguably conservative metric given (1) Donner's project partner Xstrata, which significantly decreases execution risk, and (2) the Company's peer group of established base metals producers, which currently trades at +6.0x annualized CFPS. We plan to reassess our formal valuation metric as production start-up at Bracemac-McLeod approaches.**

#### Peer-Group Comparables (base metals companies)

Company	Share Price	Corp NAV	Price / NAV	2011E CFPS	Price / CFPS	2012E CFPS	Price / CFPS
Donner Metals Ltd. (DON-V)	C\$0.19	US\$0.27	0.7x	(US\$0.01)	-	(US\$0.01)	-
Anvil Mining Ltd. (AVM-T)	C\$7.29	US\$7.47	1.0x	US\$0.40	18.8x	US\$1.75	4.3x
Avanti Mining Inc. (AVT-V)	C\$0.11	US\$0.39	0.3x	(US\$0.01)	-	US\$0.00	-
Baja Mining Corp. (BAJ-T)	C\$0.79	US\$1.72	0.5x	(US\$0.05)	-	(US\$0.10)	-
Capstone Mining Corp. (CS-T)	C\$2.54	US\$5.10	0.5x	US\$0.45	5.8x	US\$0.37	7.0x
Copper Mountain Mining Corp. (CUM-T)	C\$4.37	US\$7.66	0.6x	US\$0.20	22.1x	US\$1.85	2.4x
Coro Mining Corp. (COP-T)	C\$0.34	US\$2.00	0.2x	(US\$0.01)	-	US\$0.01	-
First Quantum Minerals Ltd. (FM-T)	C\$18.62	US\$17.73	1.1x	US\$2.25	8.5x	US\$3.00	6.3x
Lundin Mining Corp. (LUN-T)	C\$3.66	US\$8.67	0.4x	US\$0.55	6.9x	US\$0.60	6.2x
Mercator Minerals Ltd. (ML-T)	C\$1.53	US\$4.29	0.4x	US\$0.10	16.3x	US\$0.38	4.1x
Moly Mines Ltd. (MOL-T)	C\$0.39	US\$0.64	0.6x	US\$0.12	3.3x	US\$0.01	-
Nevsun Resources Ltd. (NSU-T)	C\$5.53	US\$5.35	1.1x	US\$1.00	5.7x	US\$1.55	3.6x
Royal Nickel Corp. (RNX-T)	C\$0.63	US\$2.55	0.3x	(US\$0.06)	-	(US\$0.06)	-
Zazu Metals Corp. ZAZ-T)	C\$1.15	US\$1.71	0.7x	(US\$0.03)	-	(US\$0.02)	-
<b>Peer-Group Average (producers)</b>			<b>0.7x</b>		<b>10.9x</b>		<b>4.8x</b>
<b>Peer-Group Average (developers)</b>			<b>0.4x</b>		<b>-</b>		<b>-</b>
<b>Peer-Group Average (all)</b>			<b>0.6x</b>		<b>10.9x</b>		<b>4.8x</b>

2011E C\$/US\$ FX Rate: 0.97

2012E C\$/US\$ FX Rate: 0.98

Source: Haywood Securities



Donner Peer-Group Comparables (zinc comparables)

	Donner Metals DON-V	Canada Zinc Metals CZX-V	Canadian Zinc Corp. CZN-T	Selwyn Resources SWN-V	Tamerlane Ventures TAM-V	Trevali Mining TV-T	Zazu Metals ZAZ-T	
<b>Current Share Price, \$</b>	<b>\$0.19</b>	<b>\$0.50</b>	<b>\$0.58</b>	<b>\$0.21</b>	<b>\$0.14</b>	<b>\$0.82</b>	<b>\$1.15</b>	
52-Week High / Low	\$0.37 / \$0.17	\$0.83 / \$0.34	\$1.56 / \$0.52	\$0.39 / \$0.14	\$0.50 / \$0.10	\$2.51 / \$0.73	\$1.55 / \$0.20	
30-day Average Daily Volume	50,200	64,450	83,280	88,680	73,630	291,050	0	
Shares Outstanding (Basic), millions	161.4	137.5	130.8	387.8	78.7	146.7	44.5	
<b>Balance Sheet and Capitalization</b>								
<b>Market Capitalization, US\$M</b>	<b>\$30</b>	<b>\$70</b>	<b>\$77</b>	<b>\$83</b>	<b>\$11</b>	<b>\$123</b>	<b>\$52</b>	
Current Cash Balance, US\$M	\$7	\$16	\$0	\$7	\$4	\$1	\$7	
Working Capital, US\$M	\$11	\$23	\$16	\$7	\$2	(\$12)	\$6	
Long Term Debt, US\$M	-	-	-	-	\$7	\$3	-	
<b>Enterprise Value (EV), US\$M</b>	<b>\$19</b>	<b>\$47</b>	<b>\$61</b>	<b>\$76</b>	<b>\$16</b>	<b>\$139</b>	<b>\$46</b>	
<b>Principal Asset</b>	<b>Bracemac-McLeod</b>	<b>Akie</b>	<b>Prairie Creek</b>	<b>Selwyn</b>	<b>Pine Point</b>	<b>Santander</b>	<b>Halfmile-Stratmat</b>	<b>Lik</b>
Ownership	35%	100%	100%	50%	100%	100%	100%	80%
Location	Quebec	British Columbia	Northwest Territories	Yukon Territory	Northwest Territories	Peru	New Brunswick	Alaska
Technical Report / Project Status	Preproduction	Reserves Development	Feasibility	Feasibility	Feasibility	Preproduction	Preproduction	Feasibility
Anticipated Start-up	early-2013	-	-	late-2014	late-2013	H1 2012	late-2011	-
<b>Mineral Reserve/Resource</b>								
Proven and Probable Reserve, Mt	3.7	-	-	-	7.8	-	-	-
Proven and Probable Reserve Zinc Equivalent Grade, %	14.44%	-	-	-	9.17%	-	-	-
Proven and Probable Reserve Zinc Grade, %	9.60%	-	-	-	6.16%	-	-	-
Total Mineral Resource, Mt	8.3	23.6	11.4	396.7	27.4	12.3	17.9	25.2
Total Mineral Resource Zinc Equivalent Grade, %	13.05%	9.44%	28.83%	6.41%	5.40%	5.95%	10.94%	12.43%
Total Mineral Resource Zinc Grade, %	8.04%	7.60%	12.08%	4.83%	3.83%	4.19%	7.02%	8.34%
Proven and Probable Reserve Contained Zinc Equivalent, Mlb	1,187	-	-	-	1,575	-	-	-
Proven and Probable Reserve Contained Zinc, Mlb	789	-	-	-	1,058	-	-	-
Total Mineral Resource Contained Zinc Equivalent, Mlb	2,398	4,914	7,235	56,066	3,260	1,616	4,307	6,892
Total Mineral Resource Contained Zinc, Mlb	1,478	3,954	3,032	42,203	2,311	1,137	2,763	4,624
<b>Corporate Attributable Zinc Inventory</b>								
Corporate Attributable Zinc Equivalent in Reserves, Mlb	415	-	-	-	1,574	-	-	-
Corporate Attributable Zinc in Reserves, Mlb	276	-	-	-	1,058	-	-	-
Corporate Attributable Zinc Equivalent in Total Resources, Mlb	839	5,765	7,235	29,310	4,546	8,229	5,514	
Corporate Attributable Zinc in Total Resources, Mlb	517	4,303	3,032	21,929	2,242	4,610	3,699	
<b>In-situ Valuation</b>								
<b>EV per pound attributable reserve, US\$/lb zinc equivalent</b>	<b>\$0.047</b>	-	-	-	<b>\$0.010</b>	-	-	
EV per pound attributable reserve, US\$/lb zinc	\$0.070	-	-	-	\$0.015	-	-	
<b>EV per pound attributable total resource, US\$/lb zinc equivalent</b>	<b>\$0.023</b>	<b>\$0.008</b>	<b>\$0.008</b>	<b>\$0.003</b>	<b>\$0.003</b>	<b>\$0.017</b>	<b>\$0.008</b>	
EV per pound attributable total resource, US\$/lb zinc	\$0.038	\$0.011	\$0.020	\$0.003	\$0.007	\$0.030	\$0.012	
<b>Production (100% basis)</b>								
Annual Ore Throughput (mill), Mtpa	0.9	-	0.2 - 0.4	2.9	1.0	0.7 - 1.5	0.7 - 1.5	2.0
Zinc Recovery, %	92%	-	-	85%	94%	80%	85%	83%
<b>Annual Average Zinc Production, Mlbs</b>	<b>152</b>	-	-	<b>562</b>	<b>102</b>	-	<b>135</b>	<b>267</b>
<b>Operating and Capital Costs (100% basis)</b>								
LOM Average Total Zinc Cash Cost, US\$/lb	\$0.42	-	-	-	\$0.49	-	-	\$0.59
Initial Capital Cost, US\$M	\$116	-	-	\$1,000	\$137	\$17	\$187	\$326

Mineral resources are shown inclusive of reserves.  
 Zinc Equivalent is calculated using Haywood's formal long-term metal price forecasts of US\$1.10/lb zinc, US\$1.10/lb lead, US\$3.00/lb copper, US\$1,150/oz gold, and US\$20.00/oz silver.  
 Corporate metals inventories include projects not listed above and are based on the Metals Economics Group database.  
 C\$/US\$ FX Rate: 0.98

Source: Company Disclosure, Metals Economics Group, Capital IQ, and Haywood Securities



Donner Peer-Group Comparables (VMS comparables)

	Donner Metals DON-V	Aldridge Minerals AGM-V	Aquila Resources Inc. AQA-T	Castle Resources CRI-V	Foran Mining FOM-V	Salazar Resources SRL-V	Sunridge Gold SGC-V	VMS Ventures VMS-V
<b>Current Share Price, \$</b>	\$0.19	\$0.80	\$0.51	\$0.48	\$0.63	\$0.65	\$0.35	\$0.29
52-Week High / Low	\$0.37 / \$0.17	\$2.25 / \$0.65	\$1.18 / \$0.50	\$0.95 / \$0.35	\$1.49 / \$0.50	\$1.37 / \$0.37	\$1.49 / \$0.32	\$0.85 / \$0.26
30-day Average Daily Volume	50,200	35,470	32,270	37,160	207,240	0	0	0
Shares Outstanding (Basic), millions	161.4	37.1	84.0	115.0	64.5	40.0	117.5	123.5
<b>Balance Sheet and Capitalization</b>								
<b>Market Capitalization, US\$M</b>	\$30	\$30	\$44	\$56	\$41	\$27	\$41	\$36
Current Cash Balance, US\$M	\$7	\$1	\$1	\$13	\$15	\$3	\$21	\$4
Working Capital, US\$M	\$11	\$9	\$1	\$12	\$16	\$4	\$19	\$14
Long Term Debt, US\$M	-	-	-	\$2	-	-	-	-
<b>Enterprise Value (EV), US\$M</b>	\$19	\$22	\$43	\$46	\$26	\$22	\$23	\$22
<b>Principal Asset</b>								
Ownership	Bracemac-McLeod	Yenipazar	Back Forty	Granduc	McIvenna Bay	Curipamba	Asmara	Reed Lake
Location	Quebec	Turkey	Michigan	British Columbia	Saskatchewan	Ecuador	Eritrea	Manitoba
Technical Report / Project Status	Preproduction	Feasibility	Reserves Development	Reserves Development	Reserves Development	Reserves Development	Feasibility	Reserves Development
Anticipated Start-up	early-2013	-	2015	~2014	-	-	-	-
<b>Mineral Reserve/Resource</b>								
Proven and Probable Reserve, Mt	3.7	-	-	-	-	-	-	-
Proven and Probable Reserve Zinc Equivalent Grade, %	14.4%	-	-	-	-	-	-	-
Proven and Probable Reserve Zinc Grade, %	9.6%	-	-	-	-	-	-	-
Proven and Probable Reserve Copper Grade, %	1.3%	-	-	-	-	-	-	-
Total Mineral Resource, Mt	8.3	24.5	21.3	19.6	21.6	3.1	73.2	2.7
Total Mineral Resource Zinc Equivalent Grade, %	13.0%	6.1%	5.9%	3.8%	7.6%	22.1%	5.1%	14.3%
Total Mineral Resource Zinc Grade, %	8.0%	1.5%	2.4%	-	3.8%	4.3%	1.6%	0.9%
Proven and Probable Reserve Contained Zinc Equivalent, Mlb	1,187	-	-	-	-	-	-	-
Proven and Probable Reserve Contained Zinc, Mlb	789	-	-	-	-	-	-	-
Proven and Probable Reserve Contained Copper, Mlb	104	-	-	-	-	-	-	-
Total Mineral Resource Contained Zinc Equivalent, Mlb	2,398	3,276	2,755	1,650	3,634	1,520	8,251	859
Total Mineral Resource Contained Zinc, Mlb	1,478	819	1,109	-	1,793	293	2,594	53
Total Mineral Resource Contained Copper, Mlb	231	167	110	605	534	229	1,347	270
<b>Corporate Attributable Zinc Inventory</b>								
Corporate Attributable Zinc Equivalent in Reserves, Mlb	415	-	-	-	-	-	-	-
Corporate Attributable Zinc in Reserves, Mlb	276	-	-	-	-	-	-	-
Corporate Attributable Copper in Reserves, Mlb	36	-	-	-	-	-	-	-
Corporate Attributable Zinc Equivalent in Total Resources, Mlb	839	3,276	1,388	2,172	3,641	1,520	8,251	258
Corporate Attributable Zinc in Total Resources, Mlb	517	819	553	5	1,793	293	2,594	16
Corporate Attributable Copper in Total Resources, Mlb	81	167	55	605	534	229	1,347	81
<b>In-situ Valuation</b>								
EV per pound attributable reserve, US\$/lb zinc equivalent	\$0.047	-	-	-	-	-	-	-
EV per pound attributable total resource, US\$/lb zinc equivalent	\$0.023	\$0.007	\$0.031	\$0.021	\$0.007	\$0.015	\$0.003	\$0.085
<b>Production (100% basis)</b>								
Annual Ore Throughput (mill), Mtpa	0.9	2.1	0.9 - 1.3	3.1	-	-	4.0	-
Recovery, %	92% Zn	59% Zn + 78% Pb	-	-	-	-	90% Cu + 95% Zn	-
Annual Average Production	152Mlb Zn	37Mlb Zn+37Mlb Pb	-	80-100Mlb Cu eq.	-	-	55Mlb Cu+121Mlb Zn	-
<b>Operating and Capital Costs (100% basis)</b>								
LOM Average Total Cash Cost, US\$/lb	\$0.42/lb Zn	-	-	~\$1.25/lb Cu	-	-	-	-
Initial Capital Cost, US\$M	\$116	\$198	-	~\$400	-	-	\$332	-

Mineral resources are shown inclusive of reserves.  
 Zinc Equivalent is calculated using Haywood's formal long-term metal price forecasts of US\$1.10/lb zinc, US\$1.10/lb lead, US\$3.00/lb copper, US\$1.150/oz gold, and US\$20.00/oz silver.  
 Corporate metals inventories include projects not listed above and are based on the Metals Economics Group database.  
 C\$/US\$ FX Rate: 0.98

Source: Company Disclosure, Metals Economics Group, Capital IQ, and Haywood Securities



## Financial Forecast – Strong Near-Term CFPS Potential

Life-of-mine capital costs estimated in Bracemac-McLeod’s September 2010 feasibility study mine plan total US\$164 million (100% basis), of which US\$116 million is scheduled to be spent prior to production start-up (targeted in early 2013). The US\$48 million balance (US\$17 million attributable to Donner) will be funded out of the project’s cash flow. At Haywood’s metal price forecast, which includes zinc prices of US\$1.05 per pound in 2012, US\$1.15 per pound in 2013 to 2015, and a long-term zinc price of US\$1.10 per pound (+2016), we anticipate that Bracemac-McLeod will generate approximately US\$0.10 in attributable average annualized CFPS during the project’s first 4 years of full production. We note that comparable established base metals producers in Haywood’s coverage universe currently trade at +6.0x annualized CFPS—a multiple that suggests Donner will command a greater CFPS premium valuation once steady-state production is fully established. Donner’s financial profile is highly leveraged to the zinc price. A change of US\$0.10 per pound (9%) to our 2013 forecast zinc price impacts our 2013E CFPS by about US\$0.01 (11%).

### Donner Financial Forecast (35% Bracemac-McLeod ownership)

	2012	2013	2014	2015	2016	2017	2018
Forecast Zinc Price, US\$/lb	\$1.05	\$1.15	\$1.15	\$1.15	\$1.10	\$1.10	\$1.10
Realized Zinc Price, US\$/lb	-	-	\$1.15	\$1.15	\$1.15	\$1.10	-
Forecast Copper Price, US\$/lb	\$4.00	\$4.00	\$3.50	\$3.00	\$3.00	\$3.00	\$3.00
Realized Copper Price, US\$/lb	-	-	\$2.15	\$1.90	\$1.90	\$1.90	-
Forecast Silver Price, US\$/oz	\$36.00	\$36.00	\$32.50	\$29.50	\$28.00	\$24.00	\$20.00
Realized Silver Price, US\$/oz	-	-	\$19.70	\$17.88	\$17.06	\$15.00	-
Forecast Gold Price, US\$/oz	\$1,575	\$1,575	\$1,650	\$1,650	\$1,650	\$1,600	\$1,400
Realized Gold Price, US\$/oz	-	\$1,000	\$1,000	\$975	\$875	-	-
C\$/US\$ FX Rate	0.98	1.00	1.03	1.05	1.05	1.06	1.06
Average Shares O/S, millions	200	207	207	207	207	207	207
Attributable Zinc Sales, Mlb	-	46	54	54	58	-	-
Attributable Copper Sales, Mlb	-	8	6	7	8	-	-
Attributable Silver Sales, koz	-	133	134	134	124	-	-
Attributable Gold Sales, koz	-	0.8	0.8	1.4	1.5	-	-
Total Zinc Cash Cost (NoC; IR; DON attrib. share), US\$/lb	-	\$0.50	\$0.60	\$0.60	\$0.60	-	-
Gross Sales Revenue, US\$M	-	\$81	\$81	\$86	\$88	-	-
Net Revenue, US\$M	-	\$62	\$61	\$66	\$66	-	-
Cost of Sales, US\$M	-	(\$30)	(\$28)	(\$32)	(\$33)	-	-
Corporate G&A, US\$M	(\$2)	(\$2)	(\$2)	(\$2)	(\$2)	-	-
EBITDA, US\$M	(\$2)	\$31	\$32	\$32	\$32	-	-
EV / EBITDA	-	0.6x	0.6x	0.6x	0.6x	-	-
DD&A, US\$M	-	(\$13)	(\$13)	(\$16)	(\$16)	-	-
Gain on Derivative Instruments, US\$M	-	-	-	-	-	-	-
Earnings, US\$M	(\$1)	\$10	\$12	\$11	\$11	\$2	\$2
<b>EPS, US\$</b>	<b>(\$0.01)</b>	<b>\$0.05</b>	<b>\$0.06</b>	<b>\$0.05</b>	<b>\$0.05</b>	<b>\$0.01</b>	<b>\$0.01</b>
<b>Current Price / EPS</b>	-	-	<b>3.2x</b>	<b>3.3x</b>	<b>3.2x</b>	-	-
Target Price / EPS	-	-	6.8x	7.2x	6.9x	-	-
Cash Flow Before W/C Changes, US\$M	(\$1)	\$18	\$20	\$21	\$22	\$2	\$2
<b>CFPS, US\$</b>	<b>(\$0.01)</b>	<b>\$0.09</b>	<b>\$0.10</b>	<b>\$0.10</b>	<b>\$0.10</b>	<b>\$0.01</b>	<b>\$0.01</b>
<b>Current Price / CFPS</b>	-	<b>2.1x</b>	<b>1.9x</b>	<b>1.8x</b>	<b>1.7x</b>	-	-
Target Price / CFPS	-	4.5x	4.1x	3.8x	3.6x	-	-
Capex, US\$M	(\$22)	(\$4)	(\$4)	(\$4)	(\$4)	(\$0)	-
Proceeds from Equity Financing, US\$M	\$10	-	-	-	-	-	-
Proceeds from Debt Financing, US\$M	-	-	-	-	-	-	-
Debt Repayment, US\$M	-	-	-	-	-	-	-
Free Cash Flow, US\$M	(\$8)	\$14	\$15	\$16	\$17	\$2	\$2
FCPS, US\$	(\$0.04)	\$0.07	\$0.07	\$0.08	\$0.08	\$0.01	\$0.01

NoC = net of credits; IR = including royalties.

Source: Haywood Securities



Corresponding Bracemac-McLeod Production Profile (100% basis)

	RLOM	2013	2014	2015	2016	2017	2018
Ore Tonnes Mined, millions	3.7	0.8	0.8	1.0	1.0	-	-
Waste Tonnes Mined, millions	1.3	0.6	0.5	0.2	-	-	-
Ore Tonnes Milled, millions	3.7	0.8	0.8	1.0	1.0	-	-
Ore Tonnes Milled, tonnes per day	2,500	2,300	2,200	2,700	2,750	-	-
Zinc Head Grade, %	9.7%	9.1%	11.1%	9.1%	9.6%	-	-
Copper Head Grade, %	1.2%	1.5%	1.1%	1.2%	1.2%	-	-
Silver Head Grade, g/t	28	31	33	27	24	-	-
Gold Head Grade, g/t	0.4	0.3	0.4	0.5	0.5	-	-
Zinc Recovery (to zinc concentrate), %	92%	92%	92%	92%	92%	-	-
Copper Recovery (to copper concentrate), %	86%	86%	86%	86%	86%	-	-
Silver Recovery (to copper concentrate), %	47%	47%	47%	47%	47%	-	-
Gold Recovery (to copper concentrate), %	29%	29%	29%	29%	29%	-	-
Zinc production (in zinc concentrate), Mlb	714	155	180	182	196	-	-
Copper Production (in lead concentrate), Mlb	87	25	17	22	22	-	-
Silver Production (in copper concentrate), koz	1,560	395	399	398	368	-	-
Gold Production (in copper concentrate), koz	14.5	2.7	2.7	4.4	4.7	-	-
<b>Payable Zinc Production, Mlb</b>	<b>606</b>	<b>132</b>	<b>153</b>	<b>154</b>	<b>167</b>	-	-
<b>Payable Copper Production, Mlb</b>	<b>83</b>	<b>24</b>	<b>17</b>	<b>21</b>	<b>22</b>	-	-
<b>Payable Silver Production, koz</b>	<b>1,497</b>	<b>379</b>	<b>383</b>	<b>382</b>	<b>353</b>	-	-
<b>Payable Gold Production, koz</b>	<b>13.0</b>	<b>2.4</b>	<b>2.4</b>	<b>3.9</b>	<b>4.2</b>	-	-
Operating Cost, US\$/tonne milled	\$85	\$85	\$75	\$70	\$70	-	-
<b>Total Zinc Cash Cost (NoC; IR), US\$/lb</b>	<b>\$0.40</b>	<b>\$0.30</b>	<b>\$0.40</b>	<b>\$0.30</b>	<b>\$0.40</b>	-	-
On-Site Operating Cost (DON attrib. share), US\$/tonne milled	\$100	\$105	\$105	\$100	\$100	-	-
<b>Total Zinc Cash Cost (NoC; IR; DON attrib. share), US\$/lb</b>	<b>\$0.60</b>	<b>\$0.50</b>	<b>\$0.60</b>	<b>\$0.60</b>	<b>\$0.60</b>	-	-

NoC = net of credits; IR = including royalties.

Source: Haywood Securities

Donner's 2013E CFPS and Implied Target-Price Sensitivity (35% Bracemac-McLeod ownership)

	Haywood Model	Sensitivity				Current Spot
2013E Forecast Zinc Price, US\$/lb	\$1.15	\$0.20	\$0.80	\$1.40	\$2.00	\$0.89
2013E Forecast Lead Price, US\$/lb	\$3.50	\$1.50	\$2.50	\$3.50	\$4.50	\$3.39
2013E Forecast Silver Price, US\$/oz	\$32.50	\$5.00	\$14.00	\$23.00	\$32.00	\$32.10
2013E Forecast C\$/US\$ FX Rate	1.00	1.20	1.10	1.00	0.90	1.04
2013E CFPS, US\$	\$0.09	(\$0.12)	\$0.02	\$0.12	\$0.20	\$0.06
Implied Target Price at 2.0x 2013E CFPS, C\$ per share	\$0.20	(\$0.30)	\$0.05	\$0.25	\$0.40	\$0.15
Implied Target Price at 3.0x 2013E CFPS, C\$ per share	\$0.30	(\$0.45)	\$0.10	\$0.40	\$0.55	\$0.20
Implied Target Price at 4.5x 2013E CFPS, C\$ per share	\$0.40	(\$0.65)	\$0.10	\$0.55	\$0.85	\$0.30
Implied Target Price at 5.0x 2013E CFPS, C\$ per share	\$0.45	(\$0.75)	\$0.15	\$0.60	\$0.90	\$0.35
Implied Target Price at 6.0x 2013E CFPS, C\$ per share	\$0.55	(\$0.90)	\$0.15	\$0.75	\$1.10	\$0.40

2013E Average Shares O/S: 207M

Source: Haywood Securities





## Capital Structure

### Donner Capital Structure

	Number	Strike (C\$)	Value (US\$)	Expiry Date
<b>Total Shares O/S</b>	<b>161,350,234</b>			
Warrants	-	-	-	-
<b>Total Warrants</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Options	750,000	\$0.25	\$191,327	September 6, 2012
Options	400,000	\$0.28	\$114,286	December 7, 2012
Options	2,345,000	\$0.29	\$681,964	February 23, 2014
Options	8,775,000	\$0.30	\$2,686,224	March 3, 2014
<b>Total Options</b>	<b>12,270,000</b>	<b>\$0.29</b>	<b>\$3,673,801</b>	
<b>Total Warrants + Options</b>	<b>12,270,000</b>	<b>\$0.29</b>	<b>\$3,673,801</b>	
<b>Total Shares F/D</b>	<b>173,620,234</b>			
Major Shareholders	Number (O/S) (millions)	% (O/S)	Number (F/D) (millions)	% (F/D)
Matrix Fund	4.0	2.5%	4.0	2.3%
Mackenzie Financial	1.2	0.8%	1.2	0.7%
IG Investment Management	0.3	0.2%	0.3	0.2%
Management and Directors	1.4	0.9%	1.4	0.8%
<b>Total Major Shareholders</b>	<b>7.0</b>	<b>4.3%</b>	<b>7.0</b>	<b>4.0%</b>
<b>Recent Equity Financings</b>				
November 9, 2011 - C\$0.44M non-brokered flow-through financing (2.0M shares @ C\$0.22 per share)				
November 9, 2011 - C\$2.0M brokered flow-through financing (9.1M shares @ C\$0.22 per share)				
July 13, 2011 - C\$2.25M Sandstorm equity financing (6.2M shares @ C\$0.35 per share)				
			Share Price:	\$0.19
			C\$/US\$ FX Rate:	0.98

Source: Donner Metals, Capital IQ, Bloomberg, and Haywood Securities



## Management and Directors

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### Harvey Keats — Chief Executive Officer

Mr. Keats has acted as Donner's CEO since 2005. He was former Vice President Exploration for Diamond Fields Resources, and is credited with overseeing the successful exploration program at Voisey's Bay in Labrador that led to the discovery of the "Eastern Deeps" Zone. Prior to Diamond Fields, Mr. Keats spent 25 years with Falconbridge in varying roles, including Exploration Manager for Falconbridge Chile, General Manager Exploration for Falconbridge International, and Director, Nickel Laterite Exploration.

### David Patterson — Chief Financial Officer

Mr. Patterson holds an MBA from Simon Fraser University and has worked for more than 20 years with exploration companies, raising in excess of \$150 million for various exploration initiatives. He joined Donner in 2005.

### Robin Adair — Vice President Exploration

Mr. Adair is a Professional Geologist with extensive experience relating to volcanogenic massive sulphide (VMS) deposits. Prior to joining Donner in 2006, he spent 25 years working with Noranda/Falconbridge, which included senior positions as Exploration Manager, North America for zinc/copper and subsequently nickel/copper/platinum-group elements. During this tenure, Mr. Adair guided exploration, advanced projects, feasibility, and evaluation programs, and participated in numerous acquisitions. He also negotiated and managed a large number of successful business partnerships with senior and junior mining companies.

### Ron Tessier — Vice President Engineering

Mr. Tessier is a Mining Engineer with more than 40 years related experience, which includes time in the Matagami camp—home to Donner's flagship Bracemac-McLeod project. In particular, during 2006 he managed the positive feasibility study for Xstrata's Perseverance mine, and subsequently oversaw construction of the \$160 million project, which was completed on budget and 6 months ahead of schedule in mid-2008.

### Board of Directors

David Patterson (MBA) – Chairman/Executive

Harvey Keats (Geologist) – Executive

Kerry Sparkes (Geologist) – Independent

Ken Thorsen (Professional Engineer; retired) – Independent

Laurie Sadler (Chartered Accountant; retired) – Independent



# Risks

## Political Risk

**Political risk is low – Quebec is a mining-friendly jurisdiction that consistently ranks high on the Fraser Institute’s Annual Survey of Mining Companies.** According to the Fraser Institute’s 2010/2011 survey, Quebec scored 76% (out of 100%), a second-place ranking for its present mineral potential given the province’s current policy environment. In comparison, Chile scored 77%, and Nevada scored 73%, while Venezuela, California, and the Democratic Republic of Congo scored 10%, 20%, and 21% respectively. However, assuming a ‘best practice’ policy environment, Quebec jumped to 84%, just below Chile and Nevada, both at 85%, illustrating the province’s strong mineral potential.

**Quebec actively encourages investment in the province’s exploration industry through tax benefits associated with super flow-through (SFT) shares.** In Canada, flow-through (FT) shares enable the initial purchaser to claim a tax deduction equal to his/her subscription cost on funds raised to advance exploration activities. SFT shares allow for an additional 15% federal (plus applicable provincial) tax credit for grassroots exploration. However, Quebec goes above and beyond standard SFT benefits by allowing a tax deduction of up to 150% for certain qualifying exploration expenditures. Donner’s regional exploration activities within the Matagami mining camp and contributions to ongoing ramp developments at Bracemac-McLeod to date have, for the most part, qualified as deductible Quebec SFT exploration expenditures. The Company expects to collect ~\$6 million in exploration-expenditure related rebates from the Quebec government through Q4/12.

### Super Flow-Through Share Investment Benefits – Provincial Breakdown

After-Tax Cost of a \$1,000 Investment by an Individual Investor by Province in 2011  
(based on existing and proposed legislation, as well as administrative positions, as of September 30, 2011)

Notes	Quebec	Manitoba	B.C. (Note 7)	Nova Scotia	Sask.	Ontario	P.E.I.	New Brunswick	Northwest Territories	Yukon	Nfld. & Labrador	Nunavut	Alta.	
Combined federal/provincial tax rate	A	48.22%	46.40%	43.70%	50.00%	44.00%	46.41%	47.37%	43.30%	43.05%	42.40%	42.30%	40.50%	39.00%
Federal tax rate	B	24.22%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%
Provincial tax rate	C	24.00%	17.40%	14.70%	21.00%	15.00%	17.41%	18.37%	14.30%	14.05%	13.40%	13.30%	11.50%	10.00%
Federal tax credit	D	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Provincial tax credit	E	-	30%	20%	-	10%	5%	-	-	-	-	-	-	-
Amount of investment	F	\$ 1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Less: tax benefit of deduction of flow-through investment – federal	FxB	(242)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)
Less: tax benefit of deduction of flow-through investment – provincial subtotal	(1) FxC	(360)	(174)	(147)	(210)	(150)	(174)	(184)	(143)	(141)	(134)	(133)	(115)	(100)
Less: 15% non-refundable federal investment tax credit	(2) G-Fx(1-ElxD)	(150)	(105)	(120)	(150)	(135)	(143)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Less: provincial tax credit	(3) H-ExF	-	(300)	(200)	-	(100)	(50)	-	-	-	-	-	-	-
Add: income tax on inclusion of federal tax credit	(4) GxA	36	50	52	75	59	66	71	65	65	64	63	61	59
Add: income tax on inclusion of provincial tax credit	HxA	-	139	87	-	44	23	-	-	-	-	-	-	-
		(716)	(680)	(618)	(575)	(572)	(568)	(553)	(518)	(516)	(510)	(510)	(494)	(481)
Net cost of \$1,000 investment in flow-through shares	(5),(6)	\$ 284	320	382	425	428	432	447	482	484	490	490	506	519

**Notes**

- (1) The province of Quebec deduction is 150%.
- (2) The federal government allows a credit of 15% of qualifying expenditures incurred (or deemed incurred under the “look-back” rule) before January 1, 2013. However, flow-through share subscription agreements must be signed before April 1, 2012.
- (3) Provincial tax credits reduce the amount of expenditures qualifying for the federal tax credit.
- (4) In the case of Quebec, the formula is “GxB” since the federal investment tax credit is not taxed in Quebec.
- (5) Capital gains tax applicable when the shares are sold is ignored in this analysis.
- (6) Alternative minimum tax is ignored in this analysis.
- (7) The British Columbia credit applies until the end of 2014 (using the “look-back” rule).

**Assumptions**

- Taxpayers are subject to income taxes at top marginal rates.
- Canadian exploration expenses are 100% eligible for federal and provincial tax credits.
- Available tax deductions are taken in full.
- Exploration expenditures are made in the applicable province and the taxpayer is a resident of that province for tax purposes.

Source: PDAC (<http://www.pdac.ca/pdac/advocacy/financial/flow-through-brochure.pdf>)



Matagami has been a focal point of mining activity since the early 1960s. Forestry is also active in the area. Hence, local infrastructure key to a mining operation is well established (see below). Furthermore, local support for continued mining activity is high, as the Bracemac-McLeod project is expected to employ more than 240 people. Proximity to an established town should help to attract/maintain skilled labour.

Donner's senior partner, Xstrata, is an active base metals producer in Matagami, and therefore provides site-specific operating expertise (and direct access to established infrastructure; namely, the Matagami mill). Furthermore, the major has successfully led the permitting process required to bring Bracemac-McLeod into production. Although the mine is located within the Baie James municipality, it is not subject to the James Bay and Northern Quebec Agreement environmental and social assessment process (note, the project is located to the west of the Bell River). Furthermore, Bracemac-McLeod's September 2010 feasibility study-based production rate of 2,500 tonnes per day is below the threshold that prompts the federal impact-assessment process. There are no known formal First Nations land claims or environmental liabilities attached to Donner's Matagami property package.

### Forecast Risk

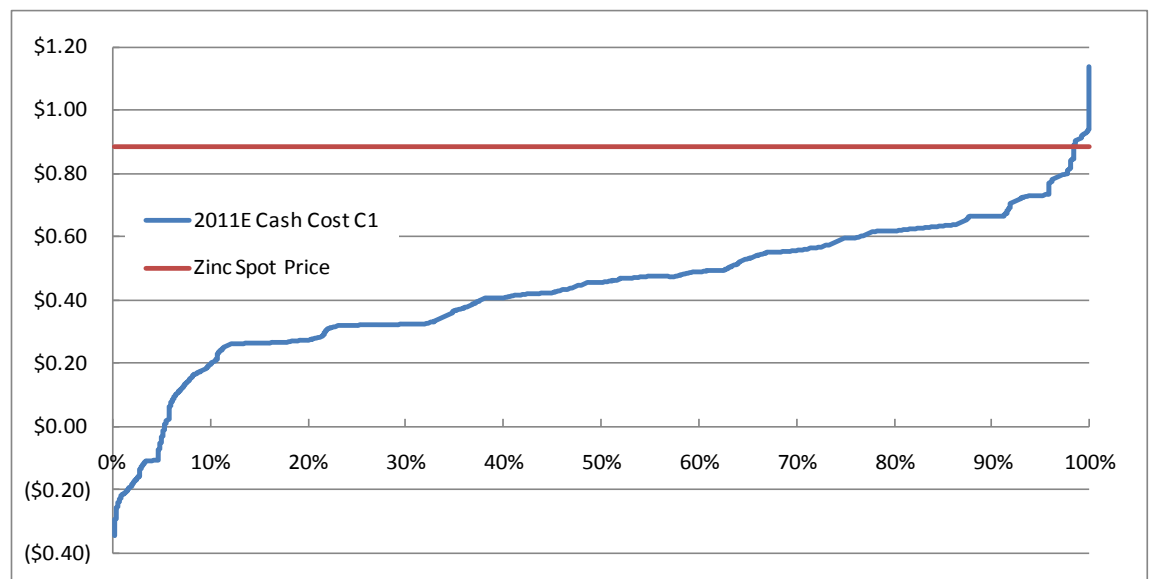
**Forecast risk is moderate** – Development risks associated with projects that have completed advanced engineering studies are significantly reduced, as many of the technical parameters used to define a project, including mine plans, metallurgical processes, and cost estimates, are backed by detailed engineering work. That said, the global mining industry continues to experience capital- and operating-cost pressure, primarily as a result of escalating labour, material (steel, rubber, and reagents), and energy costs. We have partially mitigated risk associated with potential cost escalation through a modelled US\$125 million pre-production initial capital cost (100% basis), versus Bracemac-McLeod's US\$116 million September 2010 feasibility study estimate (which includes a 10% contingency). We have also applied a modest ~12% contingency to our on-site operating costs (mining, processing, and administrative).

**Our valuation is based on Haywood's formal metal price forecasts, which include zinc prices of US\$1.05 per pound in 2012, US\$1.15 in 2013 to 2015, and an arguably conservative long-term (+2016) price of US\$1.10 per pound (refer to Radar Screen, September 8, 2011).** The primary use of zinc is for galvanizing steel and alloys—metal products critically important to both the construction and automotive manufacturing industries. GFMS anticipates a surplus of 138,000 tonnes of the metal during 2011, with global production increasing by 12.5% year on year. We expect that growth in the U.S. automotive sector, coupled with increasing Chinese industrial activity will be the key catalysts going forward, with a rise in near-/mid-term demand driven by the return of the beleaguered Japanese automotive sector. **We maintain a bullish outlook for zinc, and expect considerable supply-side constraints over the medium term. The impact of a number of key mine closures expected within the next 5 years will be amplified by a lack of large advanced-stage development projects poised to replace existing production capacity (see above).** The anticipated supply shortage is reflected, in part, by recent consolidation within the zinc space, including the acquisitions of both Farallon and Breakwater by Nyrstar, a fully integrated global zinc company, and the purchase of Sabina Gold & Silver's Hackett River project by Xstrata. We note that Nyrstar's June 2011 offer valued Breakwater at a 44% premium to market—arguably a sign that smelters/refiners are anticipating a sharp decline in available feedstock. We also note Trafigura's recent offer, at a 39% premium to market, to acquire Iberian Minerals (IZN-T), given the latter's Aguas Tenidas polymetallic mine in Spain that is expected to produce 78 million pounds of zinc in concentrate next year.



Volatility in base metal pricing is a reality of the present global economic environment. Under current market conditions for zinc pricing, Donner does not foresee any material problems. **We note that our formal base-case valuation includes a life-of-mine average total zinc cash cost of US\$0.60 per pound (net of by-product credits, including off-site charges and royalties; attributable to Donner), versus current spot zinc pricing of US\$0.89 per pound.** However, a significant decrease in zinc prices could impair Bracemac-McLeod's ability to generate sufficient cash flow from operations to meet Donner's financial obligations. **Bracemac-McLeod's economics are significantly leveraged to zinc price. A 10% decrease in the long-term zinc price (to US\$0.72 per pound) lowers Bracemac-McLeod's September 2010 feasibility study after-tax project NAV<sub>7%</sub> (100% basis) by approximately US\$44 million (to negative US\$41 million). A similar 10% reduction in our forecast 2013 zinc price (to US\$1.04 per pound) lowers our 2013E CFPS by approximately \$0.02 (-22%), and decreases our implied target price by \$0.09.** Hence, Bracemac-McLeod's project economics are contingent, in part, on a 'stronger for longer' zinc price outlook. That said, we continue to believe the risk of sustained low zinc pricing is minimal given the current shape of the zinc cash-cost curve, which suggests +20% of the world's mines would be rendered unprofitable if zinc were to drop below US\$0.60 per pound (note, Bracemac-McLeod's feasibility study-based life-of-mine average total zinc cash cost is expected to average US\$0.42 net of credits).

#### Global Zinc Cash-Cost Curve



Source: Teck Resources

Fluctuations in currency exchange rates, particularly operating costs denominated in currencies other than U.S. dollars (namely, Canadian-based labour and energy rates), may significantly impact Donner's financial position and results. Swings in exchange rates are typically correlated with the price of commodities such as metals and fuel, a factor which tends to mitigate the effects of such swings, essentially providing a 'natural hedge'. Our formal valuation includes foreign-exchange consensus forecasts published by Consensus Economics Inc.; in this case, a long-term C\$/US\$ foreign exchange rate of 1.06. **We remain cognizant that, in addition to zinc price, Bracemac-McLeod's economics are sensitive to the C\$/US\$ foreign-exchange rate. For example, a 10% increase in the relative value of the Canadian dollar decreases Bracemac-McLeod's September 2010 feasibility study US\$3.4 million after-tax project NAV<sub>7%</sub> by approximately US\$15 million (note, the study is based on a long-term C\$/US\$ foreign-exchange rate of 1.04).**





## Financial Risk

**Financial risk is moderate** – Donner formally completed its Matagami Lake Option and Joint Venture Agreement (MLOJVA) earn-in during Q2/10 by spending \$25 million on exploration in the district (see below). The Company has subsequently addressed most of its Bracemac-McLeod pre-production initial capital-cost obligations through a US\$25 million financing and Metal Purchase Agreement with Sandstorm in July 2011, and a series of smaller flow-through equity financings (see below). We expect Donner to exit 2011 with a ~\$7 million cash balance. However, the Company will still have to source additional funds to finance its remaining (2012E) attributable pre-production initial capital-cost obligations at the project. Consequently, there will be an unspecified amount of shareholder dilution (and possible hedging requirements). Although our valuation accounts for potential dilution, it is pro forma in nature. **Our model assumes that Donner will raise an additional \$10 million through an equity financing priced at \$0.25 per share in Q1/12 (40 million shares; 25% dilution).** We acknowledge that this amount exceeds the Company's remaining pre-production initial capital-cost obligations (see above). However, it is sufficient to trigger covenants associated with Sandstorm's US\$5.0 million second purchase deposit (see below) and provide additional working capital to fund ongoing exploration at Matagami. **We note that a change in an assumed equity financing price of \$0.10 per share impacts Donner's fully financed after-tax corporate NAV<sub>10%</sub> in our model by about \$0.02 per share (7%).**

Given Donner's near-producer status, our formal valuation is based on a 4.5x multiple to 2013E CFPS of US\$0.09. A change of US\$0.10 per share in the assumed equity financing price also impacts our 2013E CFPS and associated target price by US\$0.01 and \$0.05 per share respectively. **We acknowledge that Donner's 35% interest in the Bracemac-McLeod project could be reduced to a 2.0% net smelter return (NSR) royalty (1.0% of which can be purchased by Xstrata for \$1.0 million) if the Company is unable to fund its remaining pre-production initial capital-cost obligations.**

Bracemac-McLeod's September 2011 feasibility study includes a US\$116 million pre-production initial capital-cost estimate (100% basis), 35% of which Donner is responsible for (US\$41 million). We note this estimate includes a 10% contingency. Nevertheless, our formal valuation includes a pre-production initial capital cost of US\$125 million (100% basis), an arguably conservative figure which, in part, accounts for cost creep that continues to impact the global mining industry. **That said, we acknowledge that Donner is partially sheltered from initial capital-cost creep given that Bracemac-McLeod's development plans include the utilization of Xstrata's existing Matagami mill/concentrator and tailings facility—essentially valued at \$92 million (including a 35% contingency) in the project's September 2010 feasibility study.**



### Valuation Risk

**Valuation risk is moderate** – Donner trades at a discounted multiple to 2013E CFPS relative to its peer group—even under our arguably conservative scenario that includes escalated operating-cost estimates and a 2013E zinc price of US\$1.15 per pound (see Forecast Risk above). **The Matagami Lake Option and Joint Venture Agreement (MLOJVA) and Bracemac-McLeod Development and Operating Agreement (DOA; see below) clearly define the Donner/Xstrata ownership structure of the Bracemac-McLeod project and the greater Matagami property package.** Xstrata is the operator and has the life-of-mine right to process all of Bracemac-McLeod’s run-of-mine ore at its Matagami mill (and will charge Donner a ‘fee’ for use of the milling/tailings facilities). Concentrates will be shipped via established infrastructure and treated at Xstrata’s smelting and refining facilities in/near Rouyn-Noranda and Montreal. In addition, Xstrata retains the right to market any metal products produced from the Bracemac-McLeod project. **Although difficult to quantify, we stress the value of Xstrata’s position as ‘operator’, as the major’s ‘fully integrated’ profile, coupled with Matagami-specific production expertise, considerably decreases Bracemac-McLeod’s execution risk for Donner’s shareholders.**

Matagami Project Location and Concentrate Shipment Routes



Source: Donner Metals



**Xstrata is heavily invested in the Matagami area, and has an inherent interest in achieving timely production start-up at Bracemac-McLeod.** In July 2010, the major announced plans to begin advancing development/construction initiatives at the Bracemac-McLeod project—well before Donner had formally earned an interest in the associated JVA (see below). This decision was prompted by the recognition of Perseverance’s limited reserve life, which is expected to be fully depleted by early 2013, and the potential supply ‘gap’ the Matagami mill faced. **Xstrata intends to bring the Bracemac-McLeod project on line to replace Perseverance production. Some may argue that Matagami production is insignificant relative to the major’s corporate profile. However, we suspect that Xstrata is also cognizant of the significant reclamation costs it faces to ‘permanently close’ the camp.**

**Given Donner’s near-term producer status and established framework agreements with Xstrata, our formal valuation is based on an arguably conservative 4.5x multiple to 2013E CFPS, noting that Donner’s peer group of established base metals producers currently trades at +6.0x 2013E CFPS (see above).** Our formal valuation is based, in part, on Bracemac-McLeod’s mine plan and cost estimates presented in a September 2010 feasibility study published by Genivar. This feasibility study is centred on an arguably short 4-year reserve life (3.73 million tonnes). However, we note that the deposits also include a 2.63 million-tonne National Instrument 43-101 compliant inferred resource (see below), a significant portion of which we anticipate will convert to reserves with additional (underground) drilling. This inferred resource includes 2.47 million tonnes located approximately 175 metres down dip from McLeod’s reserve (see below). Continuity between McLeod’s reserve and this ‘McLeod Deep’ inferred resource remains to be drill tested. **Nevertheless, we believe the stage is set for significant reserve-life enhancement at Bracemac-McLeod through the delineation of McLeod Deep. Ultimately, we would not be surprised to see the mine provide the Matagami mill with +8 years of ore feed.**

## Overall Risk

**We rate overall risk as SPECULATIVE** – Given current market conditions, in part related to the aftermath of the global credit crisis and ongoing sovereign debt concerns, we maintain a SPECULATIVE outlook on all names in our coverage universe. That said, completion of the September 2010 feasibility study has increased the level of technical ‘certainty’ at Bracemac-McLeod. Nevertheless, the use of conservative capital- and operating-cost estimates in our valuation partially mitigates the potential risk associated with rising global cost pressures. Execution risk is further mitigated, in part, through the establishment of transparent joint-venture and operating agreements with Xstrata—a ‘major’ partner that provides site-specific operating expertise and direct access to established infrastructure, including the Matagami mill.

**Donner’s management team has clearly demonstrated its exploration strength. Indeed, the discovery of the Bracemac-McLeod ore deposit has rejuvenated Matagami’s exploration potential, in part through the recognition of ‘stacked’ VMS horizons in the district. We anticipate that Donner will use this strength to delineate additional value in the camp. In the meantime, Bracemac-McLeod production start-up anticipated in early 2013 sets the stage for a re-rating of Donner’s market valuation. The zinc price is a significant unknown going forward, for which we maintain a positive outlook.**



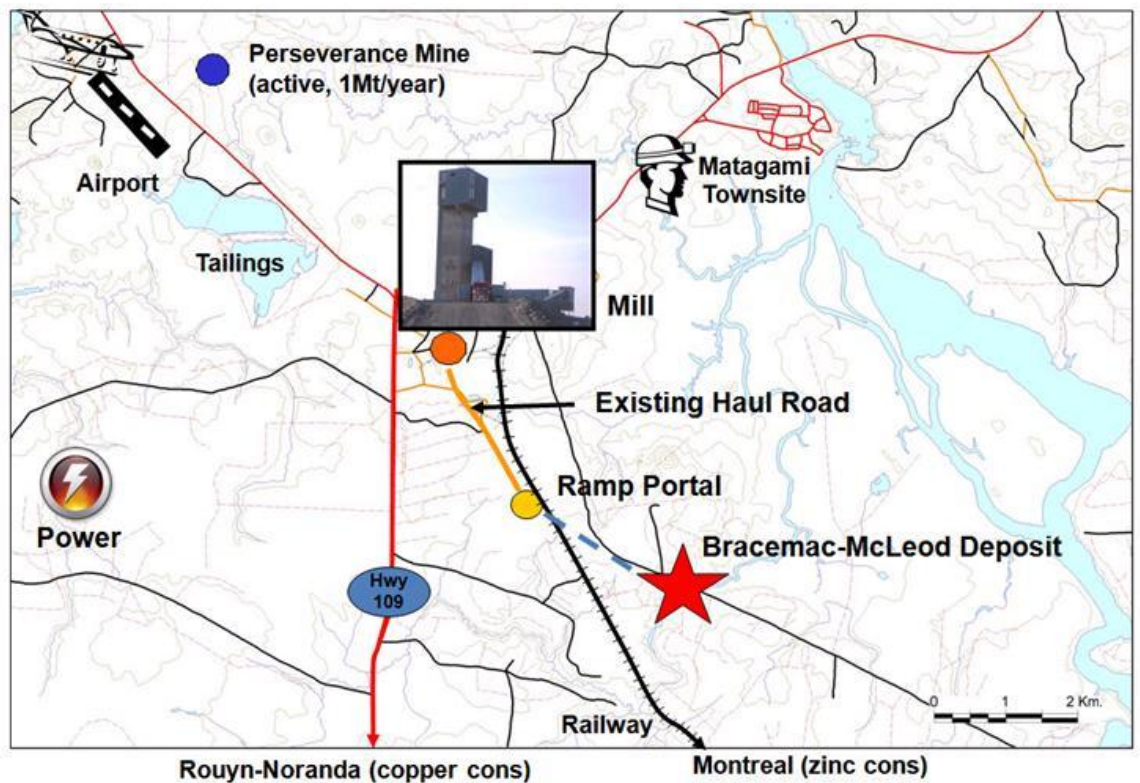


# Bracemac-McLeod Overview

## Location and Infrastructure

The Bracemac-McLeod zinc-copper project is located within the Matagami base metals mining camp, in the Abitibi Greenstone Belt of north-central Quebec—approximately 650 kilometres northwest of Montreal and 250 kilometres north of Val-d’Or. The area is characterized by a cold/boreal climate (average highs of 23°C in July and lows of -27°C in January) and generally flat (boggy) topography, where outcrop is minimal. The town of Matagami was established in the early 1960s following the initial discovery of the Matagami Lake deposit in 1957. Subsequent exploration has identified ~20 deposits in the district, 11 of which have supported mining activity since the early 1960s. Forestry is also active in the area. Hence, local infrastructure key to a mining operation is well established. Matagami is easily accessed by both highway and rail: Quebec Route 109 passes directly through the town of Matagami, and a rail line crosses the Matagami mining camp boundaries. Electricity is available through Hydro Quebec’s Figuery substation, which receives low-cost power from the Rapid 7 dam and/or the James Bay hydroelectric complex. Hydro Quebec has confirmed that capacity is available to meet Bracemac-McLeod’s peak power requirements of approximately 15,500 kilowatts.

Matagami Infrastructure Map



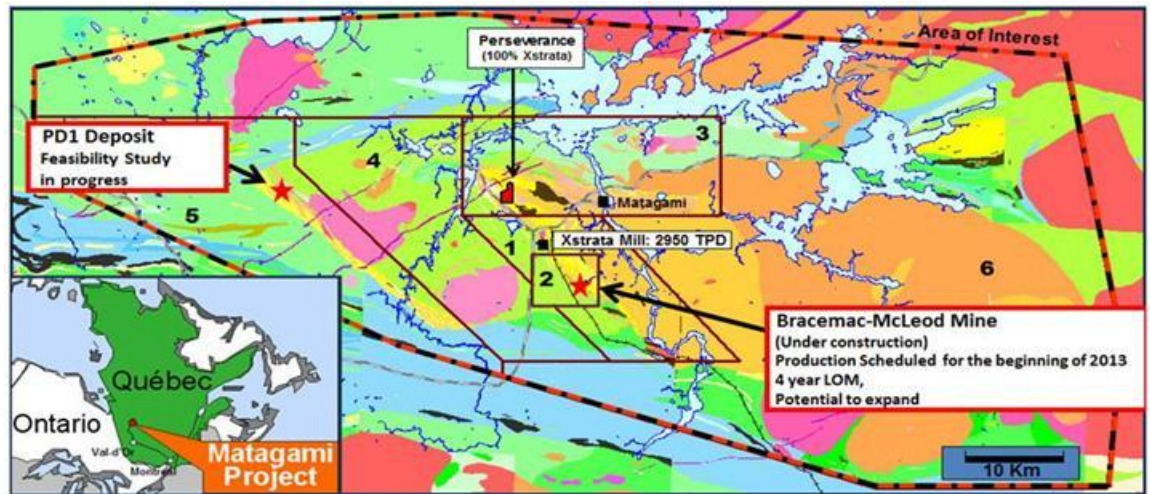
Source: Donner Metals



### Ownership and the MLOJVA

Donner’s Matagami property package covers 4,747 square kilometres (including 2,895 mineral claims covering 667 square kilometres) and is encompassed by a May 2006 Matagami Lake Option and Joint Venture Agreement (MLOJVA). Under this agreement, originally signed with Falconbridge (now Xstrata), Donner earned a 50% participating joint-venture interest in the property package by issuing Xstrata 1 million shares and spending \$25 million on exploration prior to May 31, 2011, that included establishment of an inferred resource estimate at Bracemac-McLeod (Donner announced formal completion of its 50% earn-in requirement on April 26, 2011). The earn-in formally triggered the creation of five separate 50% Donner / 50% Xstrata joint-venture areas (JVA; namely, the South Flank JVA, North Flank JVA, Central Area JVA, West Camp JVA, and East JVA). Each JVA is defined by an area of interest which expires on June 1, 2013. Following this term, the joint ventures will apply only to the surviving mineral claims and other mineral interests. Under the terms of the MLOJVA, Xstrata retains a ‘back-in’ right on each separate JVA—specifically, the option to increase its ownership to a maximum of 65% in each JVA by completing a feasibility study pertaining to the specific JVA (or by spending \$20 million towards the completion of a feasibility study).

Separate Joint-Venture Areas Covered Under the MLOJVA



- |                        |   |
|------------------------|---|
| 1) South Flank JVA     | (Xstrata 65% - Donner 35%) - No further Back-in           |
| 2) Bracemac-McLeod JVA | (Xstrata 65% - Donner 35%) - No further Back-in           |
| 3) North Flank JVA     | (Xstrata 50% - Donner 50%) - Xstrata Back-in option (15%) |
| 4) Central Area JVA    | (Xstrata 50% - Donner 50%) - Xstrata Back-in option (15%) |
| 5) West Camp JVA       | (Xstrata 50% - Donner 50%) - Xstrata Back-in option (15%) |
| 6) East JVA            | (Xstrata 50% - Donner 50%) - Xstrata Back-in option (15%) |

Source: Donner Metals

Bracemac-McLeod, Donner’s flagship asset, is located within the boundaries of the South Flank JVA. Xstrata funded a September 2010 feasibility study on the project, which decreased Donner’s South Flank JVA interest to 35% (Xstrata has no further back-in rights at Bracemac-McLeod). Subsequent completion of the Bracemac-McLeod Development and Operating Agreement (DOA), which facilitates ongoing development and future operations at the project, led to the creation of a separate Bracemac-McLeod JVA (includes 67 mineral claims covering 9.2 square kilometres). This new JVA, carved out of the South Flank JVA, is also underpinned by 65%/35% Xstrata/Donner interests. Xstrata is also in the process of completing a feasibility study on the Phelps Dodge 1 (PD1) deposit (see below). Completion is expected late this year, after which Donner’s interest in the West Camp JVA will also decrease to 35%. Donner’s interests in the other three JVAs underpinned by the MLOJVA currently stand at 50%.



Xstrata holds the right to 'operate' any mining operations developed within the MLOJVA property package and has a life-of-mine right to process all related run-of-mine ore at its Matagami mill. Donner is equally responsible for its pro rata share of expenses (capital and operating) incurred at the JVA properties, and will also be charged a 'fee' for use of Xstrata's Matagami mill and tailings facilities. Donner's ownership is subject to a 'normal' dilution clause should the Company be unable to fund its obligations. If Donner's interest falls below 10%, the Company's JVA interest will be converted to a 2.0% net smelter return (NSR) royalty (1.0% of which can be purchased by Xstrata for \$1.0 million). There are no royalties associated with the Bracemac-McLeod project. However, the PD1 deposit is subject to a 15% net carried interest royalty (increasing to 25% after 1.6 million tonnes are mined at the deposit) payable to Phelps Dodge (now Freeport-McMoRan). We note PD1 is a low-grade open-pit deposit, which could be developed quickly to provide supplemental feed to the Matagami mill, primarily if a supply 'gap' emerges during the development of higher grade deposits in the area. Current Bracemac-McLeod production start-up is expected to 'dove-tail' with final production from Xstrata's Perseverance mine in early 2013. Hence, our formal valuation (target price) does not include production from PD1. Nevertheless, the deposit offers a source of additional mine-life upside potential in the camp.

### **Bracemac-McLeod Funding Requirements and the Sandstorm Metal Purchase Agreement**

In July 2010, Xstrata announced plans to begin advancing development/construction initiatives at the Bracemac-McLeod project—well before Donner had formally earned an interest in the associated JVA. This decision was prompted by the recognition of Perseverance's limited reserve life, which is expected to be fully depleted by early 2013, and the potential supply 'gap' the Matagami mill faced. Following completion of the MLOJVA earn-in on April 26, 2011 (see above), Donner became responsible for its 35% share of Bracemac-McLeod's initial capital costs incurred to that point in time. To meet this obligation, Donner completed a US\$25.0 million financing with Sandstorm Metals & Energy in July 2011, which consisted of a US\$2.25 million private placement (6.4 million shares priced at \$0.35) and a Metal Purchase Agreement (MPA) for 50% of Donner's attributable (17.5% of Bracemac-McLeod's total) by-product copper, gold, and silver production. Sandstorm made an initial MPA purchase deposit of US\$17.75 million and will make a second US\$5.0 million deposit on or before June 30, 2012, subject to Donner's ability to raise an additional \$10.0 million during the interim. Donner has also agreed to issue Sandstorm US\$1.4 million worth of common shares on the date of the second purchase deposit. By-product metal sales considerations under the MPA include the following:

- Initial copper production will be sold to Sandstorm for US\$0.80 per pound if the prevailing London Metal Exchange (LME) spot price is above US\$2.75 per pound. Otherwise, copper will be sold for the lesser of US\$0.55 per pound and the prevailing spot price (note, Haywood's long-term copper price forecast is US\$3.00 per pound). Once Sandstorm has purchased 14.8 million pounds, copper will be sold for US\$1.05 per pound if the prevailing LME spot price is above US\$2.75 per pound, or the lesser of US\$0.80 per pound and the prevailing spot price.
- Gold equivalent (gold and silver) will be sold to Sandstorm for the lesser of US\$350 per ounce and the prevailing gold spot price (note, Haywood's long-term gold and silver price forecasts are US\$1,150 per ounce and US\$20.00 per ounce respectively).

Donner retains the option (until July 2013) to purchase back half of the by-product metals sold to Sandstorm for US\$17.5 million. Our formal valuation, based on Bracemac-McLeod's current 4-year reserve life, assumes this option is not exercised. However, we note the economics associated with option exercise become viable in our model if reserves sufficient to support a +5-year mine life at Bracemac-McLeod are developed.





In November 2011 Donner completed two additional financings totalling \$2.44 million (11.1 million flow-through shares priced at \$0.22) to further fund the Company’s attributable share of Bracemac-McLeod’s initial capital costs. Donner’s share of remaining (2012E) pre-production initial capital costs is currently estimated at ~\$20 million. We anticipate the Company will exit 2011 with a ~\$7 million cash balance, and anticipate Donner will look to a ‘final’ ~\$7.56 million (minimum; \$10 million in Haywood model) near-term financing to fully fund the Company’s obligations given the covenants associated with Sandstorm’s US\$5.0 million second purchase deposit (see above).

## Work History

Geological activity in the Matagami district dates back to the late 1800s when Robert Bell first conducted exploration in the area. Discovery of the Matagami Lake deposit in 1957 (mined from 1963 to 1988) has been followed by the identification of ~20 deposits in the area over the past ~50 years, clearly establishing Matagami as a world-class volcanogenic massive sulphide (VMS) district. Geophysics has been an invaluable exploration tool given the lack of outcrop in the camp. To date, 11 separate mines have been brought into production (10 now closed), which collectively will have mined (almost continuously, except for a hiatus from 2004 to 2008) ~50 million tonnes through (early) 2013. Xstrata’s Perseverance mine (excluded from the MLOJVA) is currently the only producer in the camp, having started production in 2008. Current reserves associated with the ramp-accessed underground mine are expected to support production through early 2013.

### Historical Production and Current Reserves/Resources in the Matagami Mining Camp

Deposit	Production Period	Tonnage (Mt)	Average Zinc Grade (%)	Average Copper Grade (%)	Average Silver Grade (g/t)	Average Gold Grade (g/t)
<b>Past Producers (South Flank JVA; Total Production)</b>						
Matagami Lake	1963-1988	25.64	8.20%	0.56%	20.91	0.41
Orchan	1963-1982	4.51	9.84%	1.02%	37.03	0.51
Isle Dieu	1989-1997	3.05	17.85%	1.01%	76.63	0.46
Bell Allard South	1968-1970	0.23	9.24%	1.14%	37.03	0.51
Bell Allard	1999-2004	3.59	13.67%	1.25%	40.55	0.69
<b>Total South Flank JVA</b>	<b>1963-2004</b>	<b>37.02</b>	<b>9.73%</b>	<b>0.72%</b>	<b>29.47</b>	<b>0.45</b>
<b>Past Producers (North Flank JVA; Total Production)</b>						
Norita	1976-1997	3.89	3.94%	1.83%	25.84	0.59
Norita East	1992-1996	1.08	10.21%	0.80%	41.42	0.74
New Hosco	1963-1970	1.83	1.73%	1.73%	10.29	0.34
Garon Lake	1968-1970	0.47	2.17%	1.46%	10.29	0.34
Radiore 2	1979-1980	0.14	1.34%	1.57%	8.57	0.31
<b>Total North Flank JVA</b>	<b>1963-1997</b>	<b>7.41</b>	<b>4.15%</b>	<b>1.63%</b>	<b>22.96</b>	<b>0.53</b>
<b>Total Historical Production</b>	<b>1963-2004</b>	<b>44.43</b>	<b>8.80%</b>	<b>0.87%</b>	<b>28.38</b>	<b>0.47</b>
<b>Current Producer (South Flank JVA; Total Mine Reserves)</b>						
Perseverance (100% Xstrata Ownership)	2008-present	5.12	15.82%	1.24%	29.00	0.38
<b>Undeveloped Deposits (Current Resources)</b>						
Bracemac-McLeod	- Proven and Probable Reserves	3.73	9.60%	1.26%	28.25	0.43
	- Additional Measured and Indicated Resources	0.24	0.96%	1.25%	7.80	0.19
	- Inferred Resources	2.63	8.79%	1.31%	38.84	1.06
	- Total	6.60	8.96%	1.28%	31.71	0.67
Phelps Dodge 1 (PD1)	- Indicated Resources	1.74	4.55%	1.16%	19.88	-
Orchan West	- Historical; Non NI 43-101 Compliant	0.34	15.89%	1.79%	-	-
Cavalier	- Historical; Non NI 43-101 Compliant	0.29	1.40%	1.48%	11.94	-
<b>Total Undeveloped Deposits (All Categories)</b>	<b>-</b>	<b>8.97</b>	<b>8.12%</b>	<b>1.28%</b>	<b>27.58</b>	<b>0.49</b>
<b>Total Matagami Mining Camp (Past + Current + Undeveloped)</b>	<b>-</b>	<b>58.52</b>	<b>9.31%</b>	<b>0.97%</b>	<b>28.31</b>	<b>0.46</b>

Source: Donner Metals.

Source: Donner Metals



The Bracemac and McLeod mineral claims were originally staked by four prospectors in June 1957, following the discovery of the Matagami Lake deposit. Initial drilling at Bracemac through 1960 misinterpreted the Bracemac Tuffite as the Key Tuffite. As a result, many of the holes were ended short of the target horizon. Interestingly, drill hole DDH-30 was stopped in a gabbro sill, but would have hit the Bracemac deposit if continued an additional 200 metres. Subsequent exploration by various operators yielded marginal results, and the property was optioned to Noranda in 1974. The Company utilized geophysics to target drilling, and in 1985, drill hole BRC-85-06 returned the first significant intersection of massive sulphides on the property (0.70 metres grading 14.75% zinc) in the hanging wall immediately adjacent to what is now recognized as the Bracemac deposit. However, additional drilling in 1986 failed to extend the zone. Xstrata acquired a 100% interest in the Bracemac and McLeod claim blocks following a 2006 takeover of Falconbridge (which in turn acquired the blocks through its merger with Noranda in 2005). **Bracemac's true potential was not fully recognized until after the creation of the MLOJVA with Donner. A recompilation of downhole geophysical data identified a significant off-hole anomaly, which was subsequently tested with drill hole BRC-06-26. The hole marked the discovery of the Bracemac Main Zone, returning 16.0 metres grading 9.17% zinc and 1.24% copper near the Bracemac Tuffite. The discoveries of the Upper Bracemac Zone and Bracemac Key Tuffite Zone followed in 2007, clearly demonstrating the potential for 'stacked' VMS mineralization at Matagami. Previous exploration had focused 'entirely' on the Key Tuffite horizon. However, the recognition of stratigraphically higher mineralization at Bracemac has 'reopened' the entire district for future exploration (see below).**

Work history on the neighbouring McLeod claims followed a similar path. Initial drilling in 1960 failed to intersect the Key Tuffite horizon, and subsequent drilling through 1988 could not tie any significant massive sulphide mineralization to anomalous alteration zones in the volcanic stratigraphy. The claims lapsed in 1999 and were staked by Soquem, which subsequently traded the package for the results of a Noranda Megatam geophysical survey (covering ground around PD1). In 2004, Noranda drilled a 14.05-metre intersection of massive sulphides grading 11.15% zinc, and 2.04% copper. However, additional drilling failed to extend the zone. McLeod's true potential was not fully recognized until after the creation of the MLOJVA with Donner. A recompilation of down-hole geophysical data identified a weak off-hole anomaly, which was subsequently tested with drill hole MC-07-22. The hole marked the discovery of the McLeod Zone, returning 5.04 metres grading 19.33% zinc and 1.22% copper at the Key Tuffite horizon.

## Work to Date

In 2006, Donner signed the Matagami Lake Option and Joint Venture Agreement (MLOJVA; see above), marking the Company's entrance into the Matagami camp. Donner subsequently initiated an aggressive exploration program that included 116 new diamond-core drill holes and the extension/wedging of previously drilled holes (+80,000 metres of drilling). The program culminated in the discoveries of the Bracemac zones in 2006 and the McLeod Zone in 2007 (see above). Drilling through 2008 led to an initial National Instrument 43-101 compliant resource estimate for Bracemac-McLeod, which was published by Zorayda Consulting in February 2009. The initial estimate outlined a 3.62 million-tonne indicated resource grading 11.52% zinc, 1.60% copper, 31.55 grams per tonne silver, and 0.49 grams per tonne gold, and a 0.51 million-tonne inferred resource grading 1.28% zinc, 1.85% copper, 12.17 grams per tonne silver, and 0.18 grams per tonne gold.

Further exploration through 2010 included 119 additional diamond-core drill holes (+50,000 metres). Xstrata completed an internal scoping study on Bracemac-McLeod in mid-2009, and in July 2010 announced plans to begin advancing development/construction initiatives at the project—well before Donner had formally earned an interest in the associated JVA (see above). This decision was prompted by the recognition of Perseverance's limited reserve life, which is expected to be fully depleted by early 2013, and the potential supply 'gap' the Matagami mill faced.



Bracemac-McLeod Portal



Source: Donner Metals

Bracemac-McLeod Portal-to-Mill Panorama



Source: Donner Metals



Bracemac-McLeod's development plans are detailed in a September 2010 feasibility study published by Genivar. The feasibility study is based on a 2,500-tonne-per-day (life-of-mine average) ramp-accessed underground mining operation (long-hole + rock-backfilled stoping) underpinned by a 3.73 million-tonne proven and probable reserve grading 9.60% zinc, 1.26% copper, 28.25 grams per tonne silver, and 0.43 grams per tonne gold. The 4-year mine plan is expected to produce 606 million pounds of zinc, 83 million pounds of copper, 1.5 million ounces of silver, and 13,000 ounces of gold (payable) at an average total zinc cash cost of US\$0.42 per pound (net of credits). Run-of-mine ore will be hauled ~4 kilometres to Xstrata's 100% owned Matagami mill/concentrator, which is currently processing ore from Xstrata's 100% owned Perseverance mine (see above) and has the capacity to treat up to 2,950 tonnes of ore per day utilizing standard off-the-shelf froth flotation. Xstrata holds the right to 'operate' any mining operations developed within the MLOJVA property package and has a life-of-mine right to process all related run-of-mine ore at its Matagami mill/concentrator. Donner will be charged a 'fee' for the use of Xstrata's Matagami mill and tailings facilities. Bracemac-McLeod ore processing is expected to produce a 48% zinc concentrate (92% zinc recovery) and a separate 21% copper concentrate (86% copper recovery; note, silver and gold by-products are expected to report to the copper concentrate with 47% and 29% recoveries respectively).

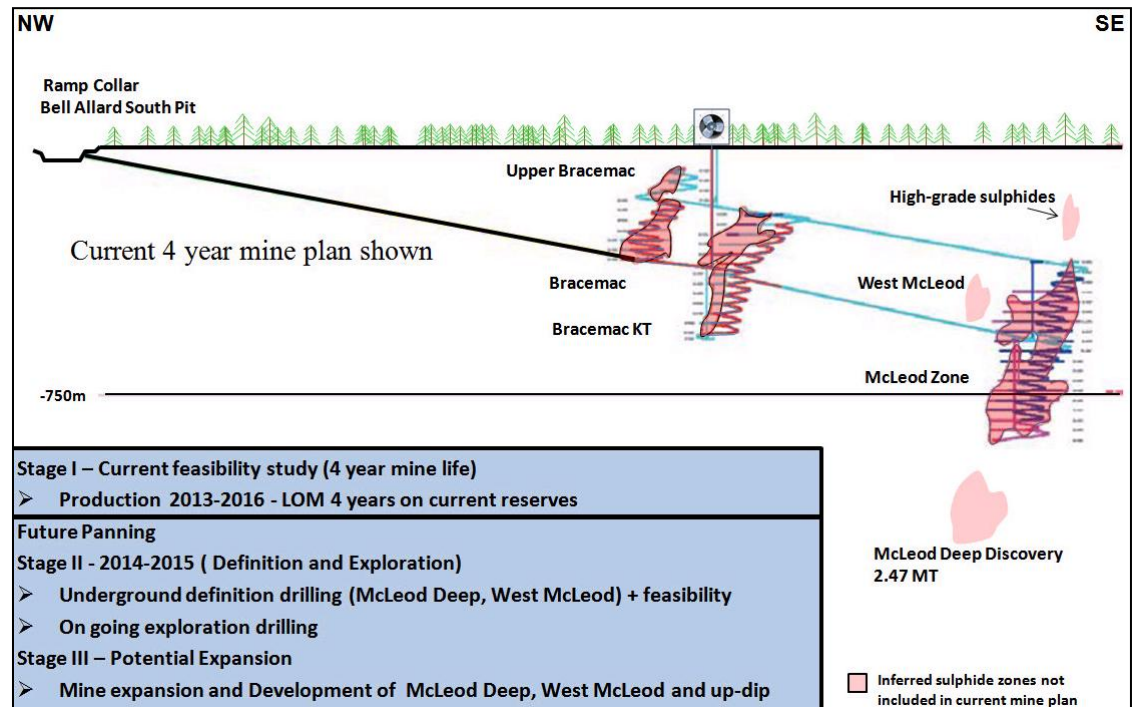
The September 2010 feasibility study includes a US\$164 million life-of-mine capital-cost estimate (100% basis; including a 10% contingency), of which US\$116 million will be incurred before production start-up. Headline economics include a US\$3.4 million after-tax project NAV<sub>7%</sub> (100% basis) and an 8.1% after-tax project internal rate of return (IRR) at long-term zinc, copper, silver, and gold prices of US\$0.80 per pound, US\$2.50 per pound, US\$12.00 per ounce, and US\$1,000 per ounce respectively. **Bracemac-McLeod's economics are significantly leveraged to the zinc price. A 20% increase in long-term zinc pricing to US\$0.96 per pound (coupled with a 20% increases to by-product copper, silver, and gold pricing) raises the project's feasibility study after-tax NAV<sub>7%</sub> to US\$70 million (100% basis).**

**Construction is well underway at Bracemac-McLeod. Work to date has focused on decline development, which now extends more than 2,200 metres in length. The opening, portalled in the Bell Allard South open pit, is currently advancing at an average rate of 5.7 metres per day (6.5 metres per day since May 2011), well ahead of Xstrata's design/targeted rate of 4.5 metres per day.** Bracemac ventilation (raise) and face development will begin once the ramp reaches 2,300 metres in length, which will set the stage for first ore production in early 2013. Ramping will also continue into McLeod. In total, 250 stopes will be mined over Bracemac-McLeod's 4-year feasibility study-based mine plan. Construction of access and haulage roads, mine support infrastructure, and electrical supply is essentially complete. We note that Xstrata's 100% owned Perseverance mine is currently expected to finish production in early 2013. Hence, progress at Bracemac-McLeod has positioned the project to maintain a continuous feed of higher grade ore to the Matagami mill. That said, we note supplemental feed will also likely be available (if needed) from the PD1 deposit (see above). However, the economics of this lower grade material are less attractive.





Bracemac-McLeod Development and Exploration Plan



Source: Donner Metals

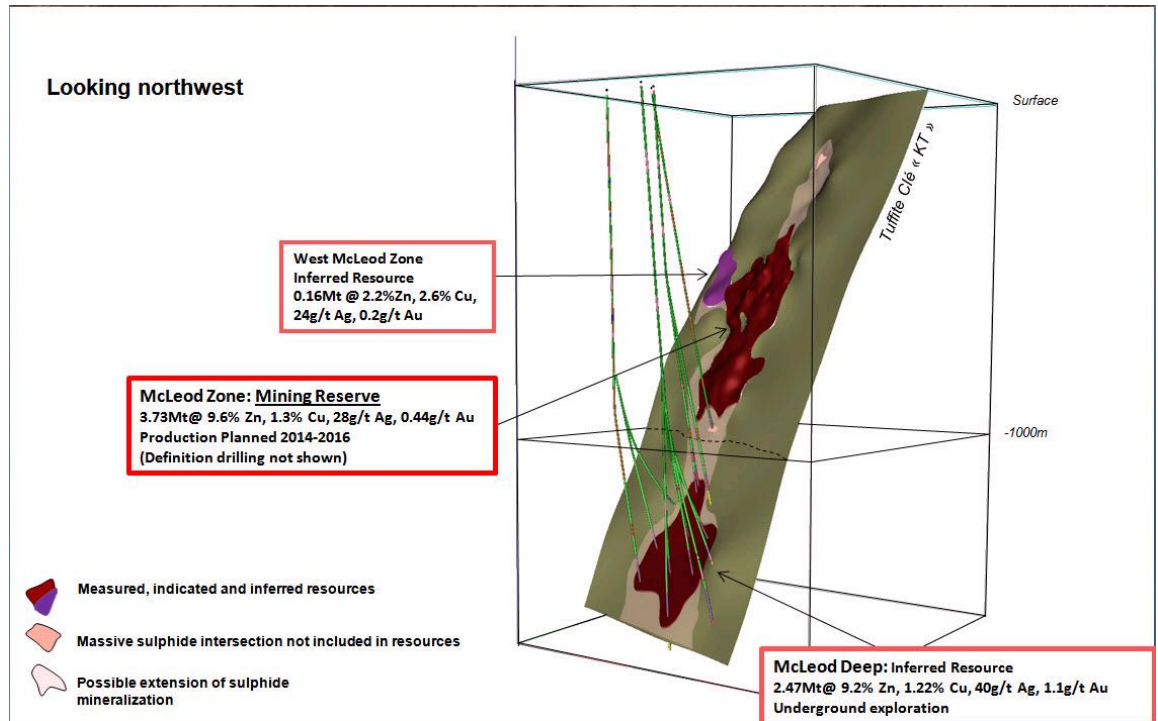
### Looking Beyond Bracemac-McLeod’s 4-Year Reserve Life

Bracemac-McLeod’s feasibility study is underpinned by an optically short 4-year reserve life. However, we note the deposits also include a 2.63 million-tonne National Instrument 43-101 compliant inferred resource grading 8.79% zinc, 1.31% copper, 38.84 grams per tonne silver, and 3.72 grams per tonne gold, a significant portion of which we anticipate will convert to reserves with additional (underground) drilling.

In 2009, downhole geophysics prompted Donner to test favourable stratigraphy, namely, the Key Tuffite, at depth below the McLeod deposit. Drill-hole MCL-09-02 returned a 21.60-metre intercept grading 6.05% zinc, 1.85% copper, 65.49 grams per tonne silver, and 1.56 grams per tonne gold at a vertical depth of ~1,275 metres—significantly below McLeod’s current reserve. Subsequent drilling (eight holes in total) has delineated this McLeod ‘Deep’ discovery over an area (in the plane of the steeply dipping Key Tuffite) measuring ~250 metres by ~250 metres. A September 2010 National Instrument 43-101 compliant resource estimate for the zone is headlined by 2.47 million inferred tonnes grading 9.21% zinc, 1.22% copper, 39.81 grams per tonne silver, and 1.12 grams per tonne gold (contained within the 2.63 million tonne inferred resource noted above). The uppermost portion of this resource is located ~175 metres down dip from McLeod’s currently planned feasibility study development. McLeod Deep mineralization remains open up dip, down dip, and to the northwest. Continuity between McLeod and McLeod Deep remains to be drill tested, but given the depth of the target, Donner plans to wait until McLeod development has established underground platforms.



McLeod Deep 3D Model



Source: Donner Metals

High-grade sulphides have also been intersected up dip from the McLeod Zone, which are not currently included in the deposit's resource (drilling at the Key Tuffite horizon ~150 metres up dip from the McLeod Zone intersected 6.35 metres grading 8.09% zinc, 2.35% copper, 5.64 grams per tonne silver, and 0.26 grams per tonne gold). Massive sulphide continuity aside, drilling has traced well-developed footwall 'pipe' alteration with base metal stringer mineralization, indicative of proximity to hydrothermal vents that can produce massive sulphides. This alteration is traceable from McLeod Deep up through McLeod and to surface, which makes the McLeod 'system' one of the largest identified in the Matagami camp to date. Hence, we believe the stage is set for significant reserve-life enhancement at Bracemac-McLeod through the delineation of McLeod Deep. Ultimately, we would not be surprised to see the mine provide the Matagami mill with +8 years of ore feed.



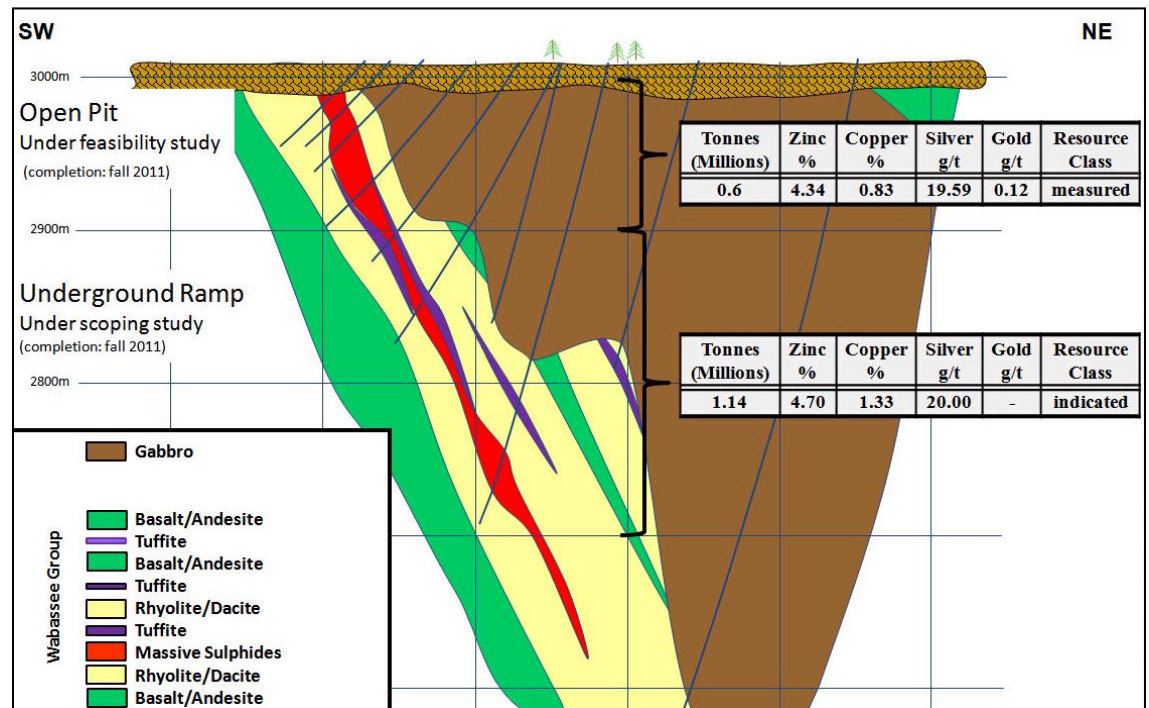


### PD1 Provides Mill-Feed 'Insurance'

Donner's near-term production potential extends beyond Bracemac-McLeod. The Phelps Dodge 1 (PD1) deposit, located within the West Camp JVA, is situated 31 kilometres northwest of the Matagami mill. The deposit is hosted within a 30-kilometre-long belt of volcanic rocks that correlates with the Matagami sequence. The PD1 deposit contains a National Instrument 43-101 compliant 1.74 million-tonne measured and indicated resource grading 4.55% zinc, 1.16% copper, and 19.88 grams per tonne silver. This resource extends from 25 to 515 metres vertical depth and includes 0.60 million tonnes in the measured category grading 4.34% zinc, 0.83% copper, 19.59 grams per tonne silver, and 0.12 grams per tonne gold within 100 metres of the surface. Xstrata is currently conducting a feasibility study to assess the open-pit mining potential of this near-surface measured resource. An additional scoping study will investigate the viability of mining PD1's deeper indicated inventory through underground methods.

PD1 was discovered by Phelps Dodge in the early 1970s. However, the project has yet to be put into production, owing mostly to its relatively low grade compared with other deposits in the Matagami district (also note PD1's high pyrite content and fine-grained nature relative to Matagami's other VMS deposits). Even at today's metal prices, PD1's economics are arguably marginal. Ongoing development at Bracemac-McLeod is currently positioning the project to replace production from Perseverance in early 2013 (see above). Nevertheless, we view PD1 as an 'insurance policy' that could be developed quickly to provide supplemental feed to the Matagami mill, primarily if a supply 'gap' emerges during Perseverance shutdown and Bracemac-McLeod start-up. Our formal valuation (target price) does not include production from PD1. Nevertheless, the deposit offers a source of additional mine-life upside potential in the camp.

#### PD1 Geological Section



Source: Donner Metals

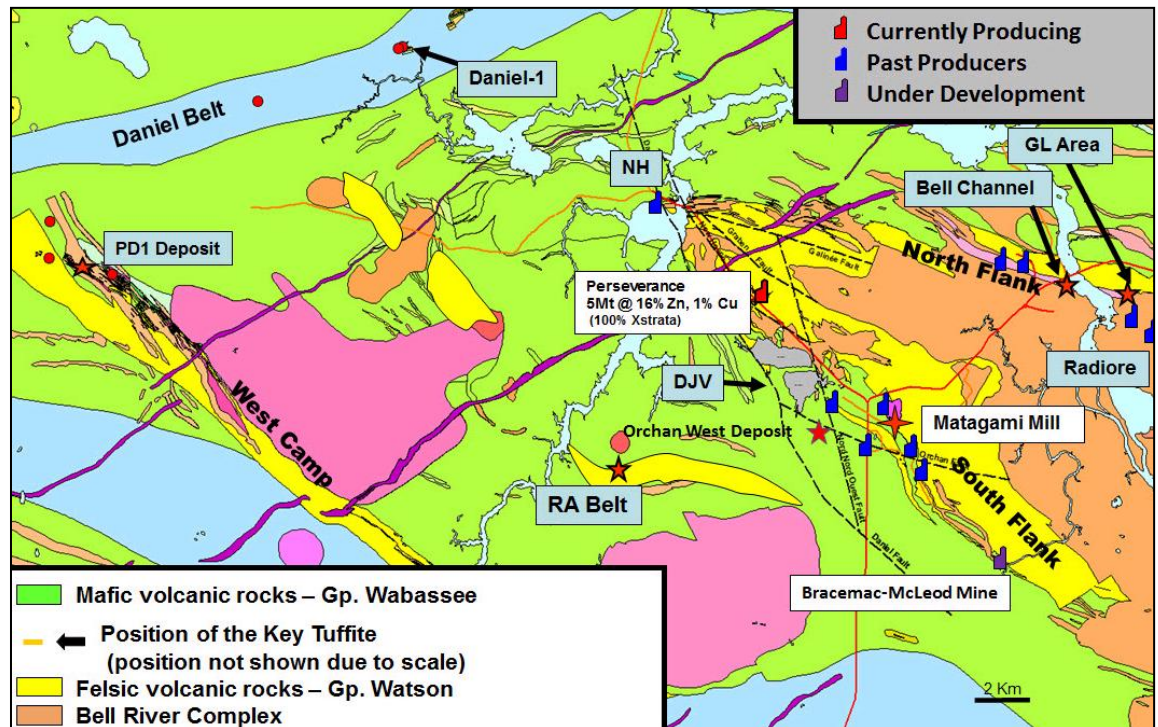


## Don't Forget Donner's Other Joint-Venture Areas

Although Bracemac-McLeod clearly underpins the Donner story, we remain cognizant of the Company's exploration activities on its other MLOJVA JVAs. Drilling in the North Flank JVA, specifically near the Radiore area, returned an 8.9-metre intercept grading 0.13% zinc, 2.35% copper, 2.59 grams per tonne silver, and 0.07 grams per tonne gold in November 2010. The results identified favourable Matagami volcanic stratigraphy in an area previously thought to contain unfavourable intrusive rocks (Bell River Complex). The Company continues to systematically test other targets as well, using a similar approach employed during the discovery of Bracemac-McLeod.

**Mattagami Lake, the first deposit discovered in the Matagami district, remains the largest volcanogenic massive sulphide (VMS) deposit found to date (25.64 million tonnes). However, despite more than 50 years of exploration activity, the camp remains fertile for additional 'large' discoveries. Perseverance (discovered in 2000, currently in production) and Bracemac-McLeod-McLeod Deep (discovered in 2006-2009) represent the camp's second and third largest massive sulphide inventories.**

Donner Resource Statement (National Instrument 43-101 compliant)



Source: Donner Metals



## APPENDIX I – Matagami Geology

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Containing almost 60 million tonnes of known massive sulphide mineralization (including historic production), the Matagami mining camp is one of the largest multi-deposit volcanogenic massive sulphide (VMS) districts in the prolific Abitibi Greenstone Belt that straddles the border between northern Ontario and Quebec. The Archean (2.7 billion years old) stratigraphy of the district consists of a lower, dominantly felsic volcanic package, the Watson Lake Group (+1 kilometre thick), overlain by a dominantly mafic volcanic package, the Wabasee Group (+13 kilometres thick). A thin (2 to 4 metres thick) unit of pyritic laminated cherty tuff known as the Key Tuffite marks the division between the two groups. The unit is a chemical exhalative sedimentary rock averaging 1.4% zinc and 0.1% copper, which has been interpreted to be genetically related to the district's volcanogenic massive sulphide deposits that also occur, for the most part, at the contact between the Watson Lake and Wabasee groups (see below).

The 2.7 billion-year-old Bell River Complex, a +5,000-metre-thick partly layered gabbro/anorthosite body intrudes the lower Watson Lake Group and has been interpreted as the heat source responsible for driving VMS-related hydrothermal circulation in the area. Regional deformation synchronous with and postdating the Bell River Complex intrusion and volcanogenic massive sulphide mineralization formed the westward-plunging district-scale Galinée Anticline. Subsequent erosion has exposed the Bell River Complex along the axis of the anticline and two volcanic belts on the north and south limbs. The north-limb volcanic rocks dip steeply to the north and are locally overturned. Coinciding with the Lac Garon Deformation Zone, the rocks are moderately to strongly deformed and sheared, creating lozenge-shaped structural domains. Stratigraphic relationships are obscured, and amphibolites-grade metamorphic facies exist throughout. In contrast, the south-limb volcanic rocks are much less deformed, consistently dipping 40° to 60° to the south. Stratigraphic relationships are readily apparent, the Key Tuffite is continuous throughout, and primary textures are well preserved with only local overprinting by prehnite-pumpellyite to greenschist-facies metamorphism. Post-volcanic to post-tectonic intrusions of varying felsic compositions occur throughout the district.

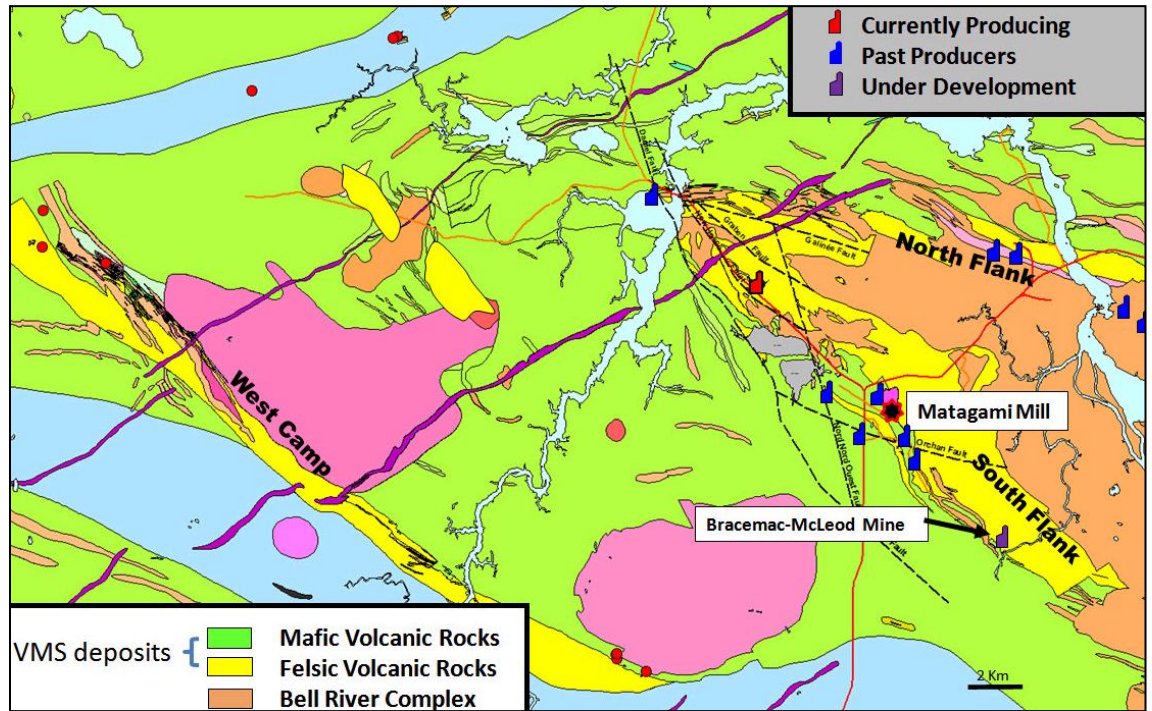
Approximately 18 VMS deposits with tonnages ranging from ~0.1 million tonnes to more than 25 million tonnes have been discovered in the Matagami district since the late 1950s. The deposits are typically zinc-rich, but also contain notable copper, silver, and gold by-product credits. Key sulphide mineralogies include pyrite (iron sulphide), pyrrhotite (iron sulphide), sphalerite (zinc sulphide), and chalcocopyrite (copper sulphide). Fine sulphide bedding is common. However, the presence of highly altered (talc-chlorite) footwall volcanic rocks beneath a number of deposits is indicative of 'proximal' deposition.

The Bracemac-MacLeod orebody (reserve) comprises four distinct zones: Bracemac Upper, Bracemac Main, Bracemac Key Tuffite, and McLeod. Additional resources are contained within the West McLeod and McLeod Deep Zones. Drilling has also returned high-grade intercepts up-dip from the McLeod Zone that are not currently included in the project's resource estimate. **Prior to 2006, exploration at Matagami was focused 'entirely' on the Key Tuffite horizon. However, Donner's discovery of the stratigraphically separated Upper Bracemac Zone, Bracemac Main Zone, and Bracemac Key Tuffite Zone has demonstrated the potential for 'stacked' VMS mineralization in the camp. The Key Tuffite is still regarded as the most favourable/prolific VMS horizon in the district. However, Donner clearly documented the reactivation of the Matagami hydrothermal system, which led to additional VMS development in 'hanging wall' volcanic rocks—a revelation that has 'reopened' the entire district for future exploration.**



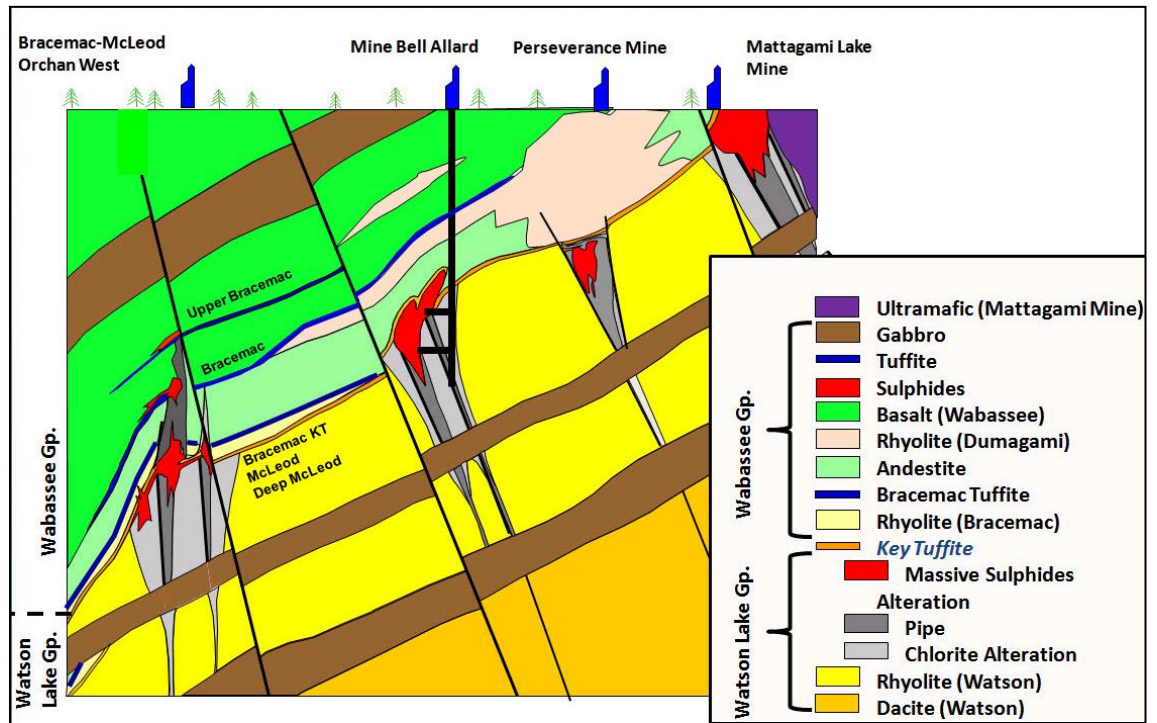


Matagami Geology Map



Source: Donner Metals

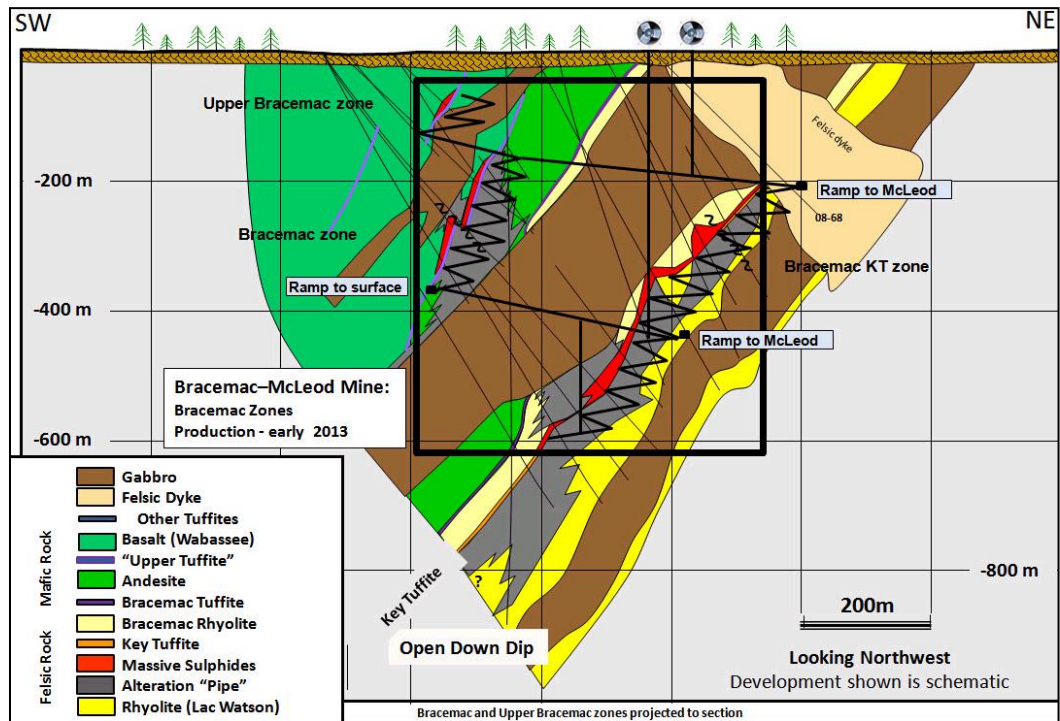
Matagami Schematic Cross Section



Source: Donner Metals

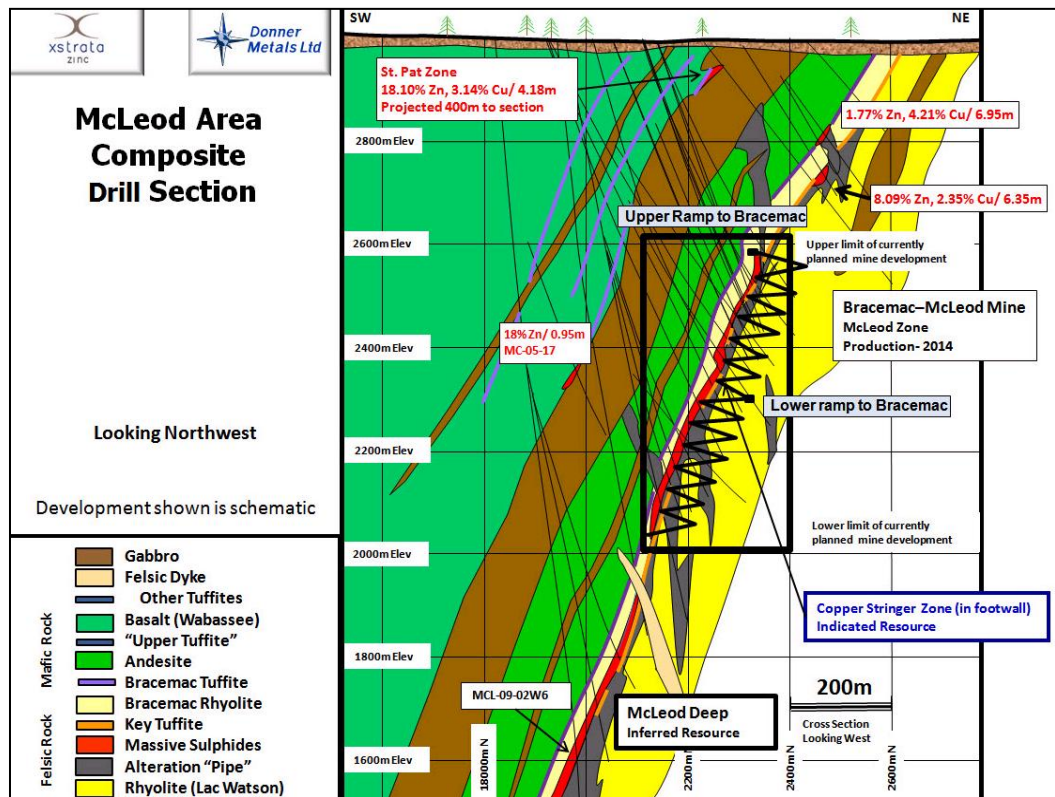


Bracemac Geological Cross Section



Source: Donner Metals

McLeod Geological Cross Section



Source: Donner Metals





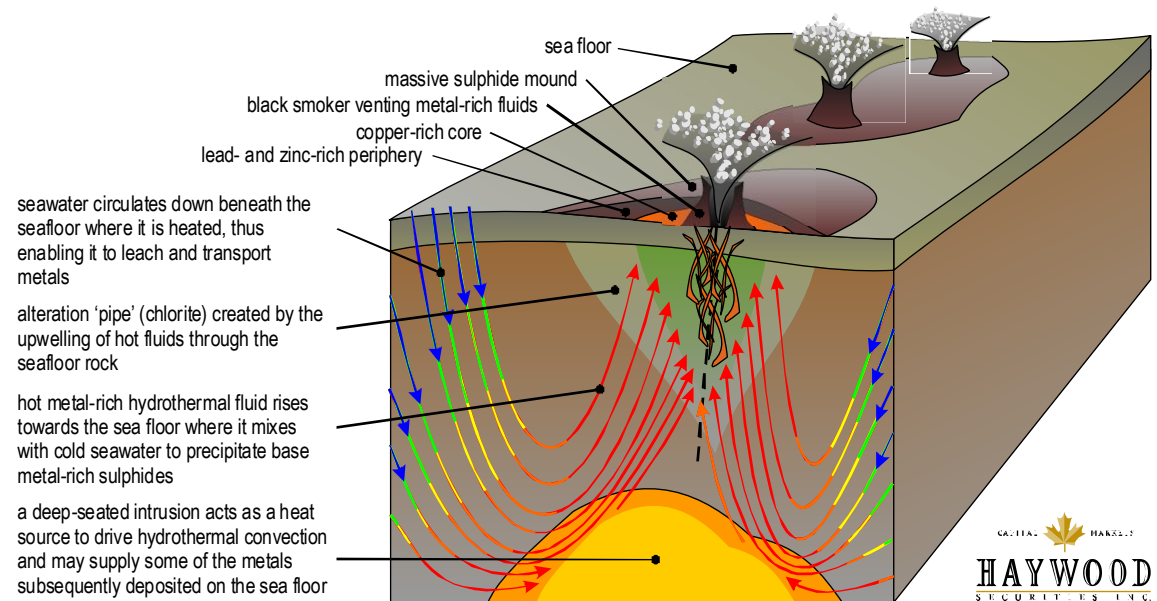
## APPENDIX II – VMS PRIMER

Volcanogenic massive sulphide (VMS) deposits are piles of iron, copper, zinc, and lead sulphides formed by the venting of hot metal-rich fluids onto (or immediately beneath) the sea floor. These fluids are generated when normal seawater is drawn down beneath the sea floor by hydrothermal convection associated with a nearby hot magmatic intrusion. During this process, these fluids can reach temperatures in excess of 350°C and dissolve metals from the surrounding rock. Metals may also be contributed from the intrusion. Eventually, the hot (buoyant) metal-rich fluids rise back towards the sea floor and ‘vent’ as a black cloud of metal sulphide particles. The cloud is formed by the hot (+350°C) hydrothermal fluid from depth mixing with the cold (approximately 2°C) seawater at the sea floor, causing metal sulphides to precipitate from the hot fluid. The ‘jets’ of spewing fluid build sulphide chimneys known as black smokers, which in turn develop into larger accumulations (mounds) of metal-rich sulphides over time—typically 5,000 to 100,000 years.

Zonation in a VMS deposit refers to the all-important distribution of ore-forming minerals within the sulphide body and is typically a function of fluid temperature (and chemistry). Copper is generally less soluble at lower temperatures relative to lead and zinc, and therefore tends to precipitate in the hotter core zones of a VMS deposit. In contrast, lead and zinc, generally more soluble at lower temperatures relative to copper, are deposited around the cooler periphery of a VMS deposit as the hot hydrothermal fluid mixes with progressively greater amounts of cold seawater.

The rocks beneath a VMS deposit are commonly altered by the hydrothermal fluids passing through them. This alteration ‘pipe’ can be significantly larger than the VMS deposit itself and therefore a useful exploration tool. The alteration pipe is also a common depositional site for high-grade footwall copper (and gold) stringer sulphide mineralization directly beneath a massive sulphide mound.

Schematic Volcanogenic Massive Sulphide (VMS) Model (not to scale)



Source: Haywood Securities







Modern-Day Active Black Smokers on the Sea Floor

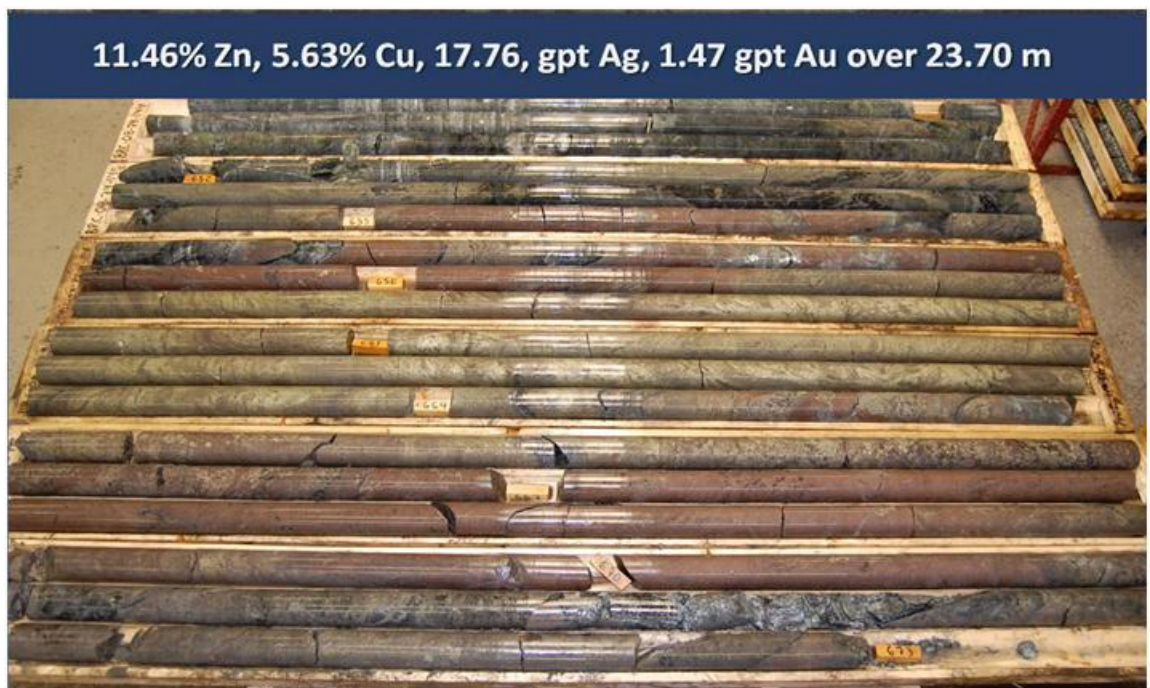


Source: www.google.com

Tectonic activity over time can expose old sections of rock that originally formed on the sea floor, some of which may contain ancient VMS deposits. For example, about 2.6 billion to 2.7 billion years ago (half the Earth's age), much of what is now Northern Ontario and Northern Quebec was a region of submarine volcanoes. One of the richest copper and zinc VMS accumulations created at that time, Kidd Creek near Timmins, contains approximately 143 million tonnes of massive sulphide ore averaging 2.5% copper and 6.0% zinc. The deposit was originally mined as an open pit beginning in 1965 and continues to produce ore from an underground operation that now extends to a depth of about 10,000 feet below surface. The deposit remains open at depth.

VMS deposits commonly occur in sediments or directly on top of felsic or mixed felsic and mafic (bimodal) volcanic rocks. Furthermore, the deposits typically occur in groups, which have led to the development of mining camps, as at the historic Matagami district in Quebec where ~20 deposits ranging from 0.1 million to more than 25 million tonnes have been discovered since the late 1950s. Other 'topical' VMS deposits/districts include Nevsun Resources' (NSU-T) Bisha project in Eritrea, Lundin Mining's (LUN-T) Neves Corvo mine in Portugal, HudBay Minerals' (HBM-T) 777 mine / Flin Flon camp in Manitoba, and Donner Metals' (DON-V) Matagami project in Quebec.

Bracemac High-Grade Massive Sulphide Drill Core



Source: Donner Metals



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	Ticker	Company	1	2	3	4	5	6	7	8
	TSX:AVM	Anvil Mining Limited			X					
	TSXV:AVT	Avanti Mining Inc.			X					
	TSX:BAJ	Baja Mining Corp.			X		X			
	TSX:CS	Capstone Mining Corp.			X			X		
	TSX:CUM	Copper Mountain Mining Corp.			X					
	TSX:COP	Coro Mining Inc.		X	X					
	TSXV:DON	Donner Metals Ltd.		X	X	X		X		
	TSX:FM	First Quantum Minerals Ltd.			X					
	TSX:LUN	Lundin Mining Corporation	X		X			X		
	TSX:ML	Mercator Minerals Ltd.	X	X	X		X			
	TSX:MOL	Moly Mines Limited			X					
	TSX:NSU	Nevsun Resources Ltd.			X					
	TSX:RNX	Royal Nickel Corporation			X	X	X			
	TSX:ZAZ	Zazu Metals Corp.		X	X					

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**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.

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

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

**UNDER REVIEW** – Placing a stock Under Review does not revise the current rating or recommendation of the analyst. A stock will be placed Under Review when the relevant company has a significant material event with further information pending or to be announced. An analyst will place a stock Under Review while he/she awaits sufficient information to re-evaluate the company's financial situation.

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### 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.

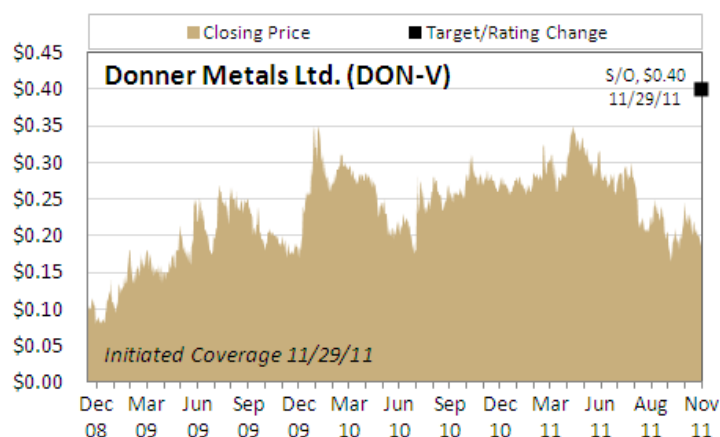
**Political Risk:** High – Currently no industry activity or infrastructure exists. Government opposition is significant. Obtaining permits is challenging. Moderate – Industry activity or infrastructure is minimal. Government at national, regional, and local levels is indifferent. Obtaining permits is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

**Distribution of Ratings (as of November 29, 2011)**

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.

	Distribution of Ratings		IB Clients (TTM)
	%	#	
S/O	72.5%	103	96.8%
S/P	1.4%	2	0.0%
S/U	2.1%	3	3.2%
T	2.1%	3	0.0%
UR (S/O)	0.7%	1	0.0%
UR (S/P)	0.0%	0	0.0%
UR (S/U)	0.0%	0	0.0%
dropped (TTM)	21.1%	30	0.0%

**Price Chart, Rating, and Price Target History (as of November 29, 2011)**



S/O: Sector Outperform; S/P: Sector Perform; S/U: Sector Underperform; T: Tender; U/R: Under Review  
 Source: Capital IQ and Haywood Securities



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