

Stingray Copper Inc. (SRY-T, \$0.61)

Monday, January 4, 2010

Rating: **DROPPING COVERAGE** (from S/O)
 Target Price: N/A (from \$0.75)
 Return: N/A
 YTD Performance: 177%
 Risk Profile: **SPECULATIVE**

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With a positive feasibility study in hand, Stingray's 100% owned El Pilar open-pit operation is designed to produce 77 Mlb of copper cathode annually at an average total cash cost of US\$1.20/lb over a base-case 14-year mine life. The Company's potential has not gone unnoticed, as evidenced by the recent completion of a friendly merger with Mercator Minerals Ltd.

Mercator Completes Friendly Offer for Stingray

Event: Stingray and Mercator Minerals Ltd. (ML-T) formally completed plans for a 'friendly' merger. Mercator has, as per the transaction, acquired all the issued and outstanding shares of Stingray at an exchange ratio of 0.25 Mercator share per Stingray share. **As a result of this merger, the TSX delisted Stingray at the close of business on December 30th, 2009, prompting us to drop formal research coverage on the Company.**

Impact - Positive (effectively neutral to our previous formal valuation): The transaction, based on the Companies' closing prices immediately prior to the offer on October 2, 2009, valued Stingray at \$0.73 per share (\$44.2M)—directly in line with our previous formal target price of \$0.75 per share (based on a 1.0x multiple to fully financed after-tax corporate NAV_{10%} at a long-term forecast copper price of US\$2.00 per pound; refer to *Radar Screen*, June 3, 2009—initiated coverage at \$0.41 per share).

- Offer delivers our previous 12-month target today** – Although we have always viewed Stingray's advanced-stage El Pilar copper project in Mexico as a robust opportunity, our previous 12-month target price of \$0.75 per share inherently included project 'financeability' risk, especially with capital markets still feeling the pain of the 'credit crunch' (note El Pilar's April 2009 feasibility study initial capital-cost estimate of US\$209 million). **Therefore, we would argue that an offer of \$0.73 per share 'today', which in part negates future financing risk for Stingray's shareholders, could be viewed as a 'premium' offer.** Stingray's shareholders appear to have agreed—99.9% of the votes cast were in favour of the transaction (representing 64% of Stingray's outstanding share capital).
- Merger gives Stingray's shareholders exposure to 'producer status'** – Stingray shareholders will hold approximately 8% of the combined Company. Mercator is an established, growth-oriented base metals producer, which recently completed a Phase I mill expansion (to 25,000 tpd) at the Company's 100% owned Mineral Park mine in Arizona, one of the largest copper-moly mines in North America. Following a Phase II mill expansion (to 50,000 tpd; US\$40M capex), targeted for completion by late Q4/10, Mineral Park is expected to produce approximately 43 Mlb of copper, 10 Mlb of moly, and 469,500 ounces of silver annually over a 25-year mine life. Mercator views Stingray's El Pilar project as a robust development opportunity that will substantially increase Mercator's leverage with respect to copper production subsequent to the completion of Mineral Park's Phase II expansion in late Q4/10. Proximity between Mineral Park and El Pilar is expected to garner synergistic savings. Furthermore, Mercator's producer status offers access to a wide range of financial options to fund initial capital costs at El Pilar.

| | |
|-----------------------|----------------------------|
| Forecast Risk | Moderate |
| Financial Risk | High |
| Valuation Risk | Moderate |
| Political Risk | Moderate |
| 52-Week High/Low | \$0.75/\$0.15 |
| Share Capital | 60.6M (O/S) 64.3M (F/D) |
| Market Capitalization | US\$34.1M |
| Cash | US\$15.1M |
| Working Capital | US\$14.7M |
| Long-term Debt | US\$0.0M |
| Enterprise Value | US\$19.3M |
| Daily Volume | 178,891 |

| | 2009 | 2010 | 2011 |
|---|----------|----------|----------|
| Shares O/S, millions | 59 | 192 | 211 |
| Forecast Copper Price, US\$/lb | \$2.35 | \$2.75 | \$3.00 |
| Attributable Payable Copper Production, Mlb | - | - | - |
| Total Copper Cash Cost, US\$/lb sold | - | - | - |
| Earnings, US\$M | (\$2) | (\$2) | (\$18) |
| EPS, US\$ | (\$0.03) | (\$0.01) | (\$0.09) |
| Price / EPS | - | - | - |
| Cash Flow Before W/C Changes, US\$M | (\$2) | (\$2) | (\$18) |
| CFPS, US\$ | (\$0.03) | (\$0.01) | (\$0.09) |
| Price / CFPS | - | - | - |
| CFPS Sensitivity, US\$ | \$0.00 | \$0.00 | \$0.00 |

CFPS sensitivity is based on a US\$0.25/lb copper price change.
 Share Price: \$0.61
 C\$/US\$ FX Rate: 1.08

Company Profile -

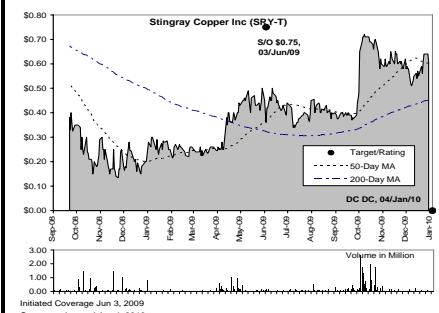
www.stingraycopper.com

Mining - Stingray is an advanced-stage base metals developer domiciled on the Toronto Stock Exchange (TSX).

Company CEO - Peter Mordaunt

Last Research - August 17, 2009

Price Performance



Source: Capital IQ and Haywood Securities



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- Haywood Securities, Inc. has reviewed lead projects of Stingray Copper Inc. (SRY-T) and a portion of the expenses for this travel have been reimbursed by the issuer.

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- n/a

Rating Structure

Each company within analyst’s universe, or group of companies covered, is assigned a rating to represent how the analyst feels the stock will perform in comparison with the other companies, in that specific sector, over the upcoming 12 month period.

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.

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**Risk Profile Parameters**

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

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 January 4, 2010)

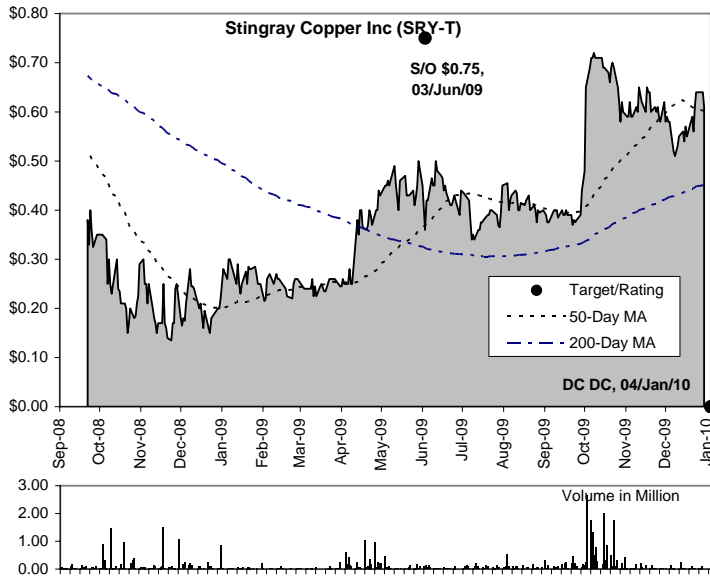
Haywood’s current rating structure (outlined above) does not correlate to the 3-tiered BUY, HOLD, SELL structure required by the FINRA. Our ratings of Sector Outperform, Sector Perform and Sector Underperform most closely correspond to Buy, Hold/Neutral and Sell respectively however, as described above,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

| | Distribution of Ratings | | IB Clients |
|----------------------|-------------------------|----|------------|
| | % | # | (TTM) |
| S/O | 44.1% | 56 | 63.9% |
| S/P | 5.5% | 7 | 2.8% |
| S/U | 4.7% | 6 | 0.0% |
| T | 0.8% | 1 | 2.8% |
| UR (S/O) | 10.2% | 13 | 22.2% |
| UR (S/P) | 4.7% | 6 | 2.8% |
| dropped (TTM) | 29.9% | 38 | 5.6% |





Rating and Price Target History (as of January 4, 2010)



Initiated Coverage Jun 3, 2009
Coverage dropped Jan 4, 2010

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

