



Sector: Base Metals & Minerals

July 25, 2016

Arizona Mining Inc.

Increasing price target following successful step out drilling

Our view: We have increased our price target as successful step out drilling demonstrates the potential to expand the resource. We see further share price upside with an aggressive exploration program underway to provide catalysts and the zinc price is rallying.

Key points:

Price target to \$3.00

- We have increased the scale of the operation and resource assumption in our model which took our NAVPS to \$3.74 from \$2.53. We now model an underground operation that ultimately ramps up to 10,000tpd based on an 80Mt resource. This is up from our prior assumptions of 6,000tpd and 39Mt (the current resource size) following successful step out drilling which we believe demonstrates the potential for a meaningful resource increase.
- Our \$3.00 target price is based the average of 0.7x our NAVPS estimate and an EV/lb valuation. Our NAV multiple reflects the early stage nature of the project and is inline with peers. We continue to use a \$0.03/lb ZnEq EV/lb multiple which reflects the current trading range and recent transactions and resulting in an EV/lb target of \$3.17.
- The average pre-production base metals transaction over the past 2 years was done at \$0.29 ZnEq which would imply a \$1.25 AZ share price based on the current resource of 39Mt (or \$2.32 based on a 80Mt resource), while the recent Newsun-Reservoir transaction was done at \$0.08 ZnEq which would imply an AZ share price of \$3.08 based on 39Mt (or \$6.03 based on 80Mt).

2016 Drilling Program Showing Potential to Grow Deposit

- The 2016 exploration program has returned several high grade intercepts which are step out holes from the current resource and above the resource grade of 11% ZnEq (see page 3). Highlights include 18.7m at 38% zinc equivalent and in a stepout hole 253m to the west with 17.4m at 49% ZnEq in a step out hole to the south west.
- **Funded for 2016:** The company recently raised C\$16M from Osisko Gold Royalties and C\$18M in a private placement to fund the 2016 drill campaign.
- **Scale of the deposit supports a meaningful zinc project:** Zinc remains our preferred base metal and the prices have begun to rally. The Taylor deposit has a sizable resource of 39.4 Mt at a relatively high grade of 11% ZnEq which places it in the top 20% of zinc deposits globally for metal content. We believe the deposit would support a large scale underground mine, assuming infill drilling confirms grade continuity. Initial metallurgical testing indicates a clean concentrate could be produced using standard flotation and the geometry appears to support bulk underground mining.

Outperform

Speculative Risk

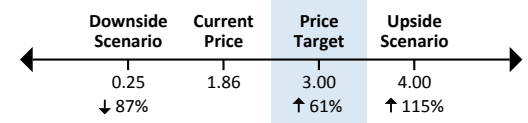
TSX: AZ; CAD 1.86

Price Target CAD 3.00 ↑ 2.00

WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	262.5	Market Cap (MM):	488
Dividend:	0.00	Yield:	0.0%
NAVPS:	3.74	P/NAVPS:	0.50x
		Avg. Daily Volume:	305,208

RBC Estimates

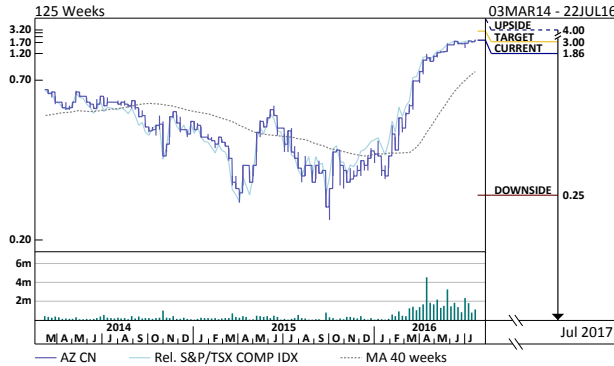
FY Dec	2015A	2016E	2017E	2018E
EPS, Adj Diluted	(0.01)	0.00	0.00	0.00
P/AEPS	NM	NM	NM	NM
CFPS, Adj Diluted	(0.01)	0.00	0.00	0.00
P/CFPS	NM	NM	NM	NM

Management and Insiders own ~40% of the shares
 All market data in CAD; all financial data in USD; dividends paid in CAD.



Target/Upside/Downside Scenarios

Exhibit 1: Arizona Mining Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

Our base case and target price C\$3.00 is based on the average of 0.7x our NAVPS estimate of C\$3.74 and an EV/lb multiple of US\$0.03/lb. Our base case assumes an underground operation starting at 6,000 tpd with initial capex of \$500MM ramping up to 10,000tpd with \$200MM of expansion capital. We also use long term price assumptions of US\$1.00/lb zinc, US\$0.85/lb lead, US/CAD of 0.80, and an 8% discount rate. We also assign a nominal value for the Central silver-manganese Deposit.

Upside scenario

Our C\$4.00 upside scenario assumes grades are 10% higher which could be the case if a higher grade section of the deposit can be delineated and selectively mined.

Downside scenario

Our downside scenario of C\$0.25 assumes that the permitting timeline is longer than expected. In this case, we value both projects on an in-situ basis at \$0.005/lb ZnEq for Taylor and \$0.10/oz Ag for the Central Project.

Investment summary

Sizable resource with exploration potential: The Taylor Deposit currently has a resource of 39Mt at high grades of 11% ZnEq, which would rank in the top 20% globally in terms of zinc content. We believe there is significant upside potential for this resource to increase, with a drilling program planned in H1/16 and PEA expected in H2/16.

Patented mining claims provide visible path to permitting: Exploration and exploitation of the Taylor Deposit is expected to occur exclusively on patented mining claims on private lands. Management believes this would require only permitting at the state level, which would provide a more viable path to permitting.

A longer dated opportunity but production is well-timed: While the Taylor Project remains a longer dated opportunity, with our estimate of first production in 2021E, we believe the project is well-timed to help fill a growing deficit in the zinc market, which should provide support for strong pricing.

Key Risks

We rate the shares Speculative Risk:

- **Exploration risk:** The initial inferred resource was based on only 25 drill holes and a considerable amount of infill drilling would be required to prove the continuity and grade of the deposit.
- **Permitting Risk:** Other projects in Arizona have had issues with permitting, notably Hudbay’s Rosemont project. However, we believe the fact that Taylor would likely be an underground mine and the project could possibly be entirely on patented land, which has a simpler permitting process, could make permitting more manageable than a larger open pit project.
- **Financing risk:** Additional financing would be required to move the project through feasibility, permitting, and construction.
- **Metal price volatility:** Arizona Mining, like all of the companies in our universe, is exposed to variations in metal prices.

Potential Catalysts

- H2/16: Exploration drilling program
- H1/17: Resource update and PEA for Taylor deposit
- Ongoing: Permitting and financing updates

Drill results to date support our thesis for significant potential resource growth

The 2016 exploration program has returned numerous high grade intercepts to date that have been well above the current resource grade of 11% ZnEq (4.5% Zn, 4.5% Pb). We list highlights from drill results to date (Exhibit 2), along with the updated drill map (Exhibit 3). Of note is that recent drilling has encountered significant copper mineralization in HDS-348, while a recent step out hole targeting the unpatented land claims (HDS-350) has encountered further high grade mineralization, suggesting the potential for continuity of the deposit. Further drilling on the unpatented land is expected in the latter part of H2/16.

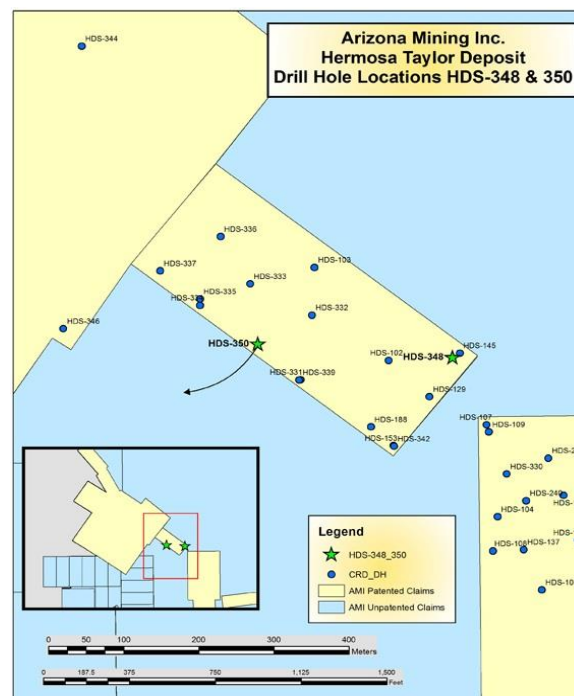
Exhibit 2: Summary of step out drilling results well above resource grade of 11% ZnEq

Summary from the 2016 exploration drilling program:

	Grade					Length m
	Cu %	Zn %	Ag g/t	Pb %	ZnEq %	
HDS-338	0.28%	11.8%	319.5	17.3%	37.3%	18.7
HDS-339	0.17%	22.7%	302.4	23.1%	52.9%	17.4
HDS-340	1.09%	3.0%	316.1	22.7%	35.5%	9.1
HDS-342	0.86%	14.2%	123.1	10.2%	29.1%	14.5
HDS-342	0.20%	7.9%	396.0	5.7%	24.3%	15.4
HDS-341	0.18%	2.0%	62.0	3.1%	7.0%	10.2
HDS-344	0.04%	4.6%	87.0	5.5%	12.2%	11.9
HDS-348	1.50%	8.8%	953.0	6.1%	43.6%	9.4
HDS-350	0.20%	19.0%	76.0	11.1%	31.9%	19.4

Source: Company reports, RBC Capital Markets

Exhibit 3: Drill location map on the Taylor Deposit

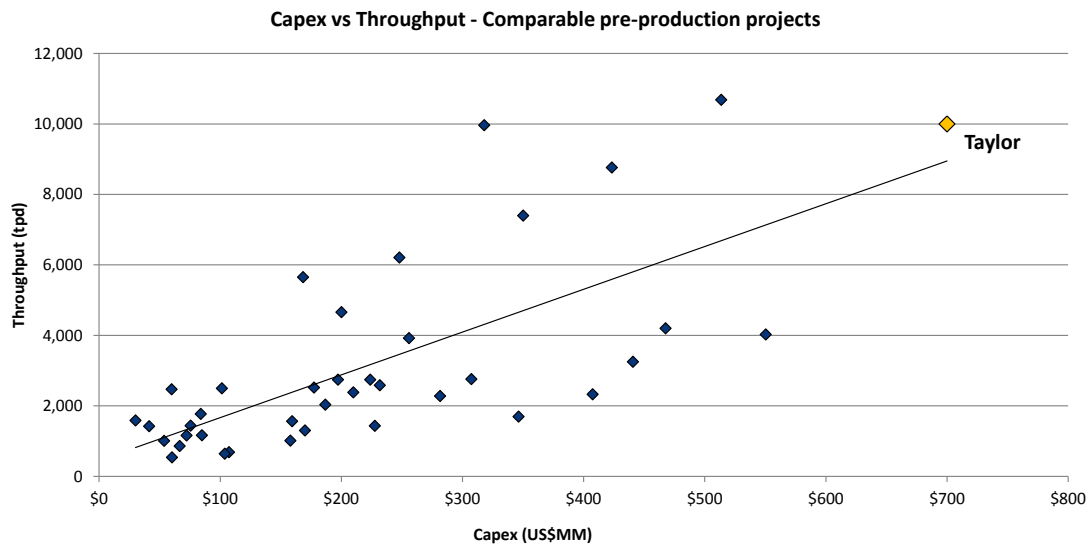


Source: Company reports

Adjusting our estimates for a larger operation

With drill results to date demonstrating the potential for a significantly larger resource, we have updated our estimates to account for an operation of comparable size and scale. We have adjusted our estimates to model a 10Ktpd operation (previously 6Ktpd), with a three year ramp up period and first production in 2021E, getting to full scale production by 2023E. Accordingly, we have increased our capital estimate to \$700M (from \$500M), which is relatively conservative versus other comparable pre-production zinc projects (Exhibit 4).

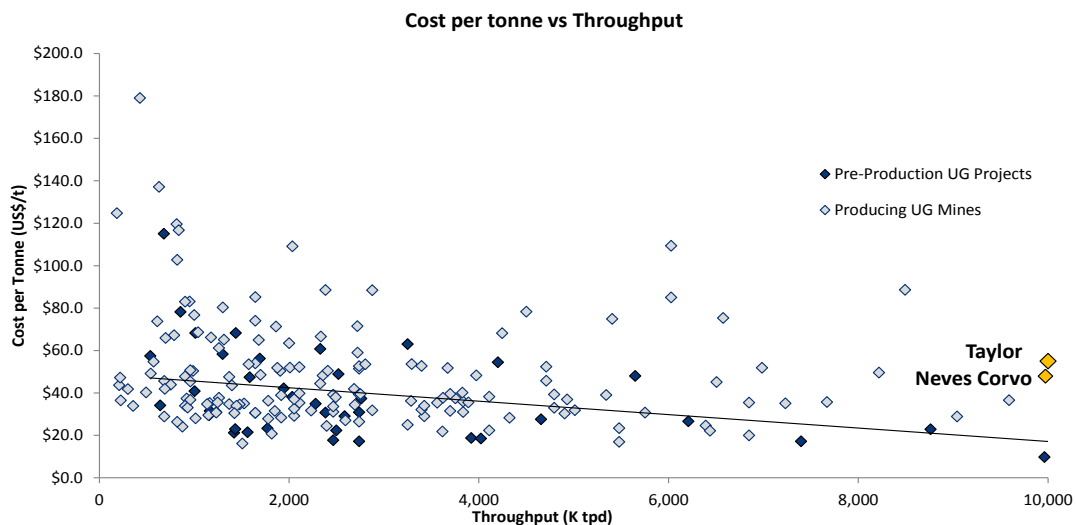
Exhibit 4: We model a 10Ktpd operation at Taylor with initial capex of \$700M, in-line with other pre-production zinc projects



Source: Company reports, Wood Mackenzie, RBC Capital Markets estimates

Furthermore, we have updated our cost per tonne estimate to \$65/t (from \$50/t), which includes \$55/t for mining and milling. This is in-line with Lundin’s Neves Corvo operation, which has a comparable throughput of ~10Ktpd (Exhibit 5, which is mining + milling).

Exhibit 5: Cost per tonne (ex G&A) versus throughput



Source: Company reports, Wood Mackenzie, RBC Capital Markets estimates



NAV Valuation: Reflecting the potential of the Taylor Project

Our target price of \$3.00/share is based on the average of 0.7x our base case 2016E NAV and our EV/lb calculation. Our base case NAVPS of \$3.74 using a long term zinc price of \$1.00/lb and long term lead price of \$0.85/lb along with an 8% discount rate.

We assume first production at the Taylor Project in 2021E (implying 5 years of engineering, permitting and construction) with a staged ramp up to 360 MMLbs ZnEq on a 10,000 tpd operation at low zinc C1 cash costs of \$0.03/lb over a 19 year mine life. We also assign a nominal value of \$0.15/oz Ag to the Central Project, which has a large silver-manganese resource.

Exhibit 6: Net Asset Value (NAV) Breakdown for AZ highlights the potential of the Taylor Deposit

Net Asset Value - Arizona Mining				NAV RBCCM		
	Location	Discount Rate	Ownership	C\$m	C\$/shr	
Development Projects						
Taylor Deposit (Zn-Pb-Ag)	AZ	8.0%	100%	\$975	\$3.53	97%
Central Deposit (Ag-Mn)	AZ	295MMoz	@ US\$0.15/oz Ag	\$28	\$0.10	3%
OPERATING NAV				\$1,004	\$3.63	
Corporate & Other						
Cash (assumes in the money options/warrants exercised)				\$37	\$0.14	
Debt				\$-	\$-	
Corporate G&A (after tax)		8.0%		(\$7)	(\$0.03)	
CORPORATE NAV				\$30	\$0.11	
NET ASSET VALUE				\$1,034	\$3.74	
Shares Outstanding F.D.					276.5	
P/NAV					0.48x	

NAV Valuation	Value	Multiple	Target
Operating @ 8.0%	\$3.63	0.70x	\$2.54
Corporate	\$0.11	1.00x	\$0.11
			\$2.65
EV/lb Valuation			
Taylor (ZnEq MMLbs)	19,085.6	U\$0.03/lb	\$2.69
Central (Ag MMoz)	295.1	U\$0.15/oz	\$0.21
			\$3.01
Average			\$2.83
Target Price			\$3.00
Current Share Price			\$1.80
Implied Return			66.7%

		Long Term Zinc Price (US\$/lb)				
		\$0.80	\$0.90	\$1.00	\$1.10	\$1.20
Discount Rate	5%	\$4.37	\$5.24	\$6.12	\$6.92	\$7.69
	8%	\$2.56	\$3.15	\$3.74	\$4.28	\$4.80
	10%	\$1.79	\$2.25	\$2.72	\$3.14	\$3.55
	15%	\$0.71	\$0.98	\$1.25	\$1.49	\$1.73

Source: RBC Capital Markets Estimates



Relative Valuation – trading above base metal peers on current resource

AZ currently trades at a premium to peers at 3.5¢/lb ZnEq on an EV/lb basis versus peers at 1.2¢. We believe that this is in part attributed to market expectations pricing in the potential for an increase in the resource and grade at Taylor.

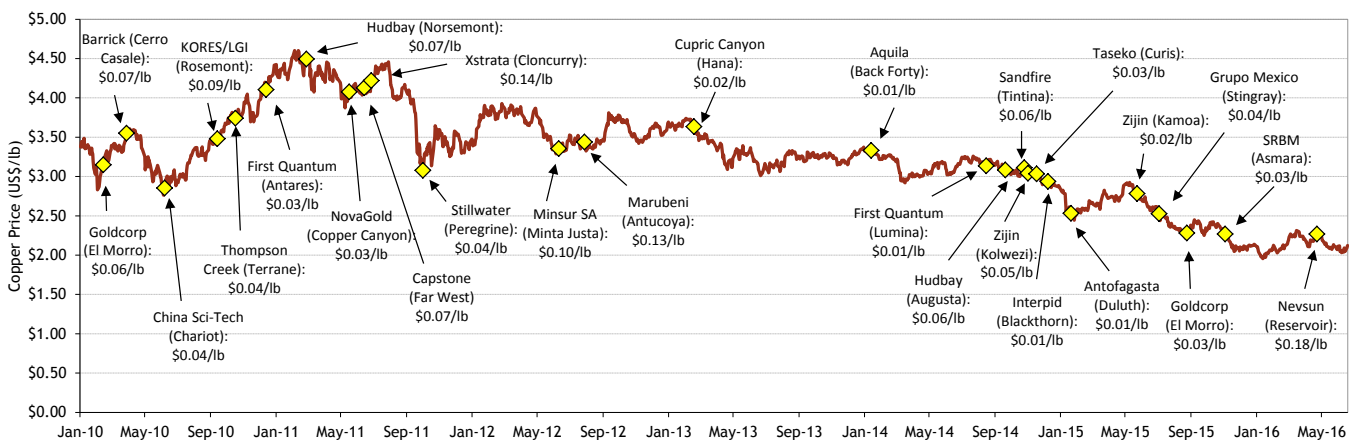
Reservoir Minerals was taken out for \$0.18/lb CuEq and the project had a total resource of 4,300MMlbs at 5% CuEq (or 9,500 MMlbs at 12% ZnEq) which is similar in scale to the current Arizona Mining resource.

Exhibit 7: AZ is currently trading above peers on an EV/lb basis (both CuEq and ZnEq)

Selected Base Metal Companies													
Company	Sym-Exch	Share Price \$/sh	YTD Performance	Shares O/S MM	Mkt. Cap US\$MM	EV US\$MM	M&I ZnEq MM lbs	M&I ZnEq MM lbs	M&I ZnEq Grade (%)	EV / CuEq M&I+ (¢/lb)	EV / ZnEq M&I+ (¢/lb)	Wkg Cap (\$mm)	Area of Major Exploration
Aquila Resources	AQA-T	\$0.24	40%	221	\$40	\$47	3,033	3,475	9.0%	3.3¢	1.3¢	\$1	Michigan
Balmoral Resources	BAR-T	\$0.92	114%	125	\$87	\$64	753	766	9.8%	20.6¢	8.3¢	\$6	Quebec
Canada Zinc Metals	CZX-V	\$0.28	104%	152	\$33	\$26	4,342	5,800	9.5%	1.1¢	0.4¢	\$7	British Columbia
Canadian Zinc Corp	CZN-T	\$0.36	238%	259	\$71	\$69	4,124	7,693	22.2%	2.2¢	0.9¢	\$2	Northwest Territories
Heron Resources	HER-T	\$0.17	113%	415	\$52	\$34	25,289	5,220	0.3%	1.6¢	0.7¢	\$17	Australia
Ivanhoe Mines	IVN-T	\$1.15	89%	779	\$685	\$390	79,998	132,966	7.0%	0.7¢	0.3¢	\$324	DRC, South Africa
NGEX Resources	NGQ-T	\$1.19	83%	205	\$202	\$200	54,304	87,327	1.3%	0.6¢	0.2¢	\$1	Chile/Argentina
Nevada Copper	NCU-T	\$0.58	-12%	88	\$40	\$128	17,800	19,754	1.5%	1.6¢	0.6¢	(\$91)	Nevada
Novacopper	NCQ-T	\$0.77	95%	105	\$62	\$50	9,325	24,484	5.4%	0.5¢	0.2¢	\$12	Alaska
Polymet	POM-T	\$1.01	-7%	278	\$208	\$261	15,132	20,687	1.7%	3.1¢	1.3¢	\$2	Minnesota
Rox Resources	RXL-AU	\$0.02	83%	1,181	\$19	\$17	296	6,397	9.2%	0.6¢	0.3¢	\$1	Australia
Western Copper and Gold	WRN-T	\$1.08	184%	94	\$81	\$73	25,966	53,369	0.8%	0.3¢	0.1¢	\$8	Yukon
Average										3.0¢	1.2¢		
Arizona Mining (Taylor only)	AZ-T	\$1.80	454%	233	\$321	\$327	0	9,400	11%	8.6¢	3.5¢	\$25	Arizona

* Covered by RBC Capital Markets
Source: Company reports, RBC Capital Markets estimates

Exhibit 8: Deal time series – base metal deals (CuEq basis)



Source: Company reports, RBC Capital Markets



Arizona Mining

(TSX-AZ)

Valuation	2014A	2015A	2016E	2017E	2018E	2019E
EPS, adjusted	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	\$0.00
EPS Growth	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
P/EPS	n.m.	n.m.	n.m.	n.m.	n.m.	893.9x
CFPS	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	\$0.00
P/CFPS	n.m.	n.m.	n.m.	n.m.	n.m.	857.2x
EV/FBTD	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	-	-	-	-	-	-
Weighted Avg. Shares Outstanding (millions)	145	152	255	308	499	658
Average Share Price	\$0.49	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80
P&L (millions)	2014A	2015A	2016E	2017E	2018E	2019E
Net Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Operating Costs	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SG&A	\$1.4	\$1.0	\$1.5	\$1.5	\$1.5	\$1.5
Exploration	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Expenses	\$0.2	\$0.6	\$0.0	\$0.0	\$0.0	\$0.0
EBITDA	(\$1.6)	(\$1.6)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)
DD&A	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
EBIT	(\$1.6)	(\$1.6)	(\$1.5)	(\$1.5)	(\$1.5)	(\$1.5)
Net Interest Expense	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0
Other Income/(expense)	(\$0.0)	\$0.3	\$0.0	\$0.3	\$0.5	\$3.4
Taxes	\$0.0	\$0.0	\$0.4	\$0.4	\$0.3	(\$0.6)
Equity & Associate Interests	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Minority Interests	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Earnings	(\$1.6)	(\$1.5)	(\$1.0)	(\$0.8)	(\$0.7)	\$1.3
Preferred Dividends & Other	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Earnings to Common	(\$1.6)	(\$1.5)	(\$1.0)	(\$0.8)	(\$0.7)	\$1.3
Adjustments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Adjusted Net Earnings	(\$1.6)	(\$1.5)	(\$1.0)	(\$0.8)	(\$0.7)	\$1.3
Cash Flow (millions)	2014A	2015A	2016E	2017E	2018E	2019E
Net Earnings	(\$1.6)	(\$1.5)	(\$1.0)	(\$0.8)	(\$0.7)	\$1.3
DD&A	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Deferred Taxes	\$0.0	\$0.0	(\$0.0)	(\$0.0)	(\$0.0)	\$0.1
Working Capital & Other	\$0.1	\$0.6	\$0.0	\$0.0	\$0.0	\$0.0
Operating Cash Flow	(\$1.5)	(\$0.9)	(\$1.1)	(\$0.9)	(\$0.8)	\$1.4
CAPEX	(\$2.8)	(\$3.7)	(\$10.0)	(\$20.0)	(\$20.0)	(\$100.0)
Free Cash Flow	(\$4.3)	(\$4.6)	(\$11.1)	(\$20.9)	(\$20.8)	(\$98.6)
Preferred Dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Issuance/(Repayment) of Debt	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Common Dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Dividends Paid to Minority Interests	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Issuance/Buyback of Common Shares	\$1.3	\$0.5	\$31.5	\$50.0	\$250.0	\$0.0
Other Financing Activities	\$2.3	\$4.6	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition/Disposal of Assets	(\$2.8)	(\$3.7)	\$0.0	(\$20.0)	(\$20.0)	(\$100.0)
Other Investing Activities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change in Cash	(\$0.6)	\$0.4	\$53.1	\$29.1	\$529.2	(\$98.6)
Balance Sheet (millions)	2014A	2015A	2016E	2017E	2018E	2019E
Cash & Short-term Investments	\$0.0	\$0.4	\$53.5	\$82.6	\$611.8	\$513.2
Total Current Assets	\$0.2	\$0.7	\$53.7	\$82.8	\$612.1	\$513.5
Property, Plant & Equipment	\$70.4	\$73.6	\$73.6	\$93.6	\$113.6	\$213.6
Total Assets	\$70.9	\$74.5	\$127.6	\$176.7	\$726.0	\$727.3
Short-term Borrowing & Debt Due in One Yr	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Current Liabilities	\$1.0	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
Long-term Debt	\$0.0	\$0.0	\$0.0	\$0.0	\$300.0	\$300.0
Total liabilities	\$2.2	\$2.0	\$2.0	\$2.0	\$302.0	\$302.0
Minority Interests	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Common Shareholders' Equity	\$68.7	\$72.5	\$125.6	\$174.7	\$424.0	\$425.3
Total Liabilities & Shareholders' Equity	\$70.9	\$74.5	\$127.6	\$176.7	\$726.0	\$727.3

Priced as of market close, July 21, 2016 ET.
Source: Company reports, RBC Capital Markets estimates

Outperform

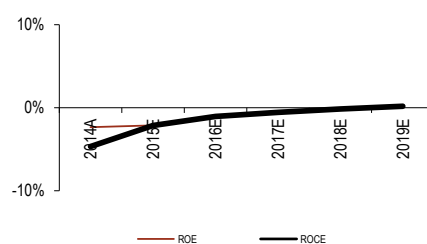
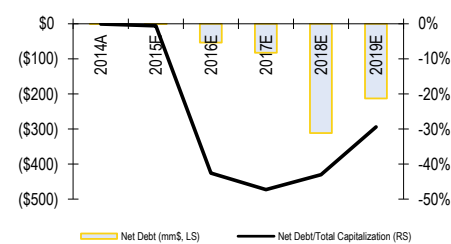
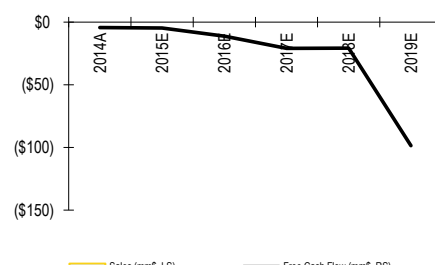
Speculative Risk

12-Month Target
Analyst **Sam Crittenden**
(416) 842-7886
sam.crittenden@rbccm.com

Share Price C\$1.80
52-Week High C\$1.90
52-Week Low C\$0.22
Market Capitalization (MM) C\$383.4
Shares Outstanding (MM) 213
Float (MM) 213
Year-end 31-Dec
Reporting Currency US\$



Priced as of market close July 21, 2016





Arizona Mining

(TSX-AZ)

Outperform

Speculative Risk

Ratio Analysis	2014A	2015A	2016E	2017E	2018E	2019E
Sales Growth (%)	nm	nm	nm	nm	nm	nm
EBITDA/Sales (%)	nm	nm	nm	nm	nm	nm
EBIT/Sales (%)	nm	nm	nm	nm	nm	nm
Net Earnings/Sales (%)	nm	nm	nm	nm	nm	nm
Effective Tax Rate	0.0%	0.0%	30.0%	30.0%	30.0%	30.0%
Net Interest Coverage (EBIT/Interest Charge)	-45.9x	-11.6x	nm	nm	nm	nm
Net Debt/Equity	-0.1%	-0.6%	-42.6%	-47.3%	-73.5%	-50.1%
Net debt/ Total Capitalization	-0.1%	-0.6%	-42.6%	-47.3%	-43.1%	-29.4%
Return on Assets (ROA)	-2%	-2%	-1%	-1%	0%	0%
Return on Equity (ROE)	-2%	-2%	-1%	-1%	0%	0%
Return on Capital Employed (ROCE)	-5%	-2%	-1%	-1%	0%	0%

12-Month Target

C\$3.00

Commodity & FX Assumptions	2014A	2015A	2016E	2017E	2018E	2019E
Copper Price (US\$/lb)	\$3.11	\$2.50	\$2.10	\$2.25	\$2.50	\$2.75
Zinc Price (US\$/lb)	\$0.98	\$0.88	\$0.85	\$1.10	\$1.30	\$1.50
Lead Price (US\$/lb)	\$0.95	\$0.81	\$0.79	\$0.81	\$0.81	\$0.82
Gold Price (US\$/oz)	\$1,266	\$1,160	\$1,322	\$1,500	\$1,500	\$1,400
Silver Price (US\$/oz)	\$19.09	\$15.70	\$19.25	\$25.00	\$25.00	\$22.00
C\$/US\$	\$0.91	\$0.78	\$0.75	\$0.78	\$0.79	\$0.79

Production (attributable)	2014A	2015A	2016E	2017E	2018E	2019E
Total Zinc (MM lbs)	-	-	-	-	-	-
Total Lead (MM lbs)	-	-	-	-	-	-
Total Silver (000 oz)	-	-	-	-	-	-

Cash Costs:	2014A	2015A	2016E	2017E	2018E	2019E
Zinc (US\$/lb)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Operating Profits (million)	2014A	2015A	2016E	2017E	2018E	2019E
Total	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Estimated NAV Break-Down	C\$/sh	% Assets
Taylor Deposit (Zn-Pb-Ag)	\$3.53	97%
Central Deposit (Ag-Mn)	\$0.10	3%

Gross Asset Value	\$3.63	100%
Cash & Investments	\$0.14	
Debt	\$0.00	
Net Corporate Overheads	(\$0.03)	

Net Asset Value **\$3.74**

Price/NAV 0.5x

Priced as of market close, July 21, 2016 ET.

Source: Company reports, RBC Capital Markets estimates



Valuation

Our target price of C\$3.00/share is based on the average of 0.7x our 2016E Operating NAV and our EV/lb calculation. The 0.7x NAVPS multiple is in line with early stage base metals peers and we believe is appropriate for this point in the cycle as the companies tend to trade at large discounts to NAV when spot prices are below long term price assumptions. Our target supports our Outperform, Speculative Risk rating.

Price target impediments

Risks to rating and price target include:

Exploration risk: The initial inferred resource was based on only 25 drill holes and a considerable amount of infill drilling would be required prove the continuity and grade of the deposit.

Permitting Risk: Other projects in Arizona have had issues with permitting; however, we believe the fact that Taylor would likely be an underground mine and the project could possibly be entirely on patented land, which has a simpler permitting process, could make permitting more manageable than a larger open pit project.

Financing risk: Additional financing would be required move the project through feasibility, permitting, and construction.

Metal price volatility: Arizona Mining, like all of the companies in our universe, is exposed to variations in metal prices.

Company description

Arizona Mining is a exploration stage base metals company advancing the Hermosa Project in Arizona, USA. The project consists of the Taylor Deposit, a zinc-lead-silver deposit which was discovered in 2015, and the Central Deposit, which is a silver-manganese deposit.



Required disclosures

Non-U.S. analyst disclosure

Sam Crittenden and Wayne Lam (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Arizona Mining Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Arizona Mining Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Arizona Mining Inc. in the next three months.

RBC Capital Markets is currently providing Arizona Mining Inc. with investment banking services.

RBC Capital Markets has provided Arizona Mining Inc. with investment banking services in the past 12 months.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Rating

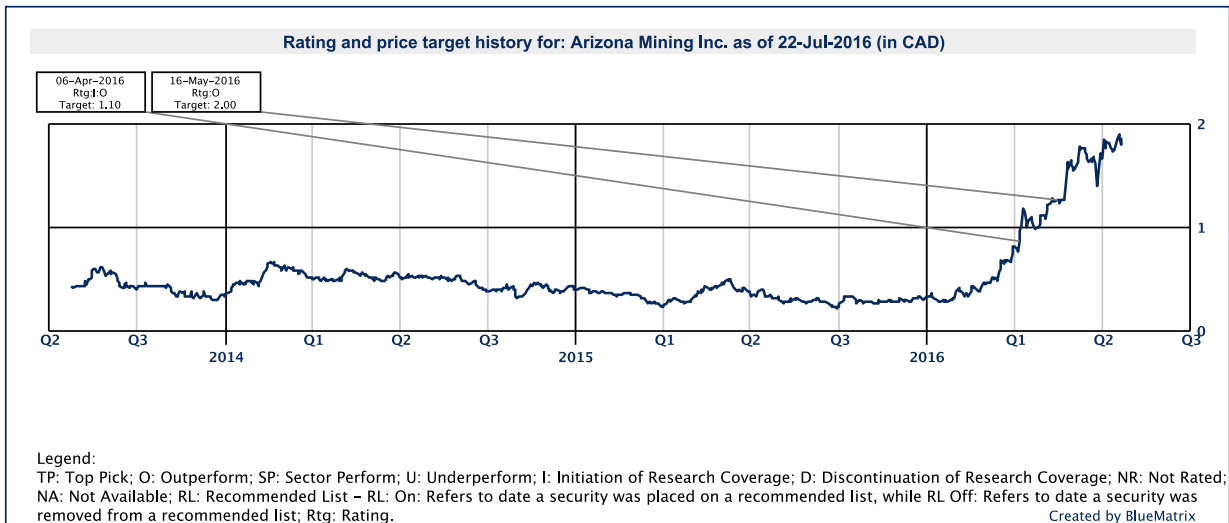
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings RBC Capital Markets, Equity Research As of 30-Jun-2016				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	878	50.51	246	28.02
HOLD [Sector Perform]	741	42.64	129	17.41
SELL [Underperform]	119	6.85	10	8.40



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), and the Guided Portfolio: ADR (RL 10), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to



<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link: <https://rbcnew.bluematrix.com/sellside/MAR.action>

The 12 month history of SPARCs can be viewed at <https://www.rbcinsight.com/CM/Login>.

Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Third-party-disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other



investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To German Residents:

This material is distributed in Germany by RBC Europe Limited, Frankfurt Branch which is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association ("JSDA").

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2016 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2016 - Member Canadian Investor Protection Fund

Copyright © RBC Europe Limited 2016

Copyright © Royal Bank of Canada 2016

Copyright © RBC Capital Markets (Hong Kong) Limited 2016

All rights reserved