JENNINGS CAPITAL INC.

April 15, 2014

Recommendation: SPECULATIVE BUY

AUGUSTA RESOURCE CORP.

(TSX-AZC; NYSE MKT AZC C$3.37)

12-Month Target: C$4.25

Risk Rating: ABOVE AVERAGE

SITE VISIT OPENS OUR EYES TO JUST HOW GOOD THIS PROJECT REALLY IS

- We have recently returned from a site visit to Augusta's Rosemont Copper project near Tucson, Arizona.
- Our visit conveyed to us a belief that the Company has taken extraordinary measures to ensure the natural environment is protected to the greatest extent possible.
- We believe the project site is well-situated for an open pit mining operation, in that almost all site facilities and impacts are nearly completely hidden from view of anyone travelling along Highway 83.
- We had an opportunity to review engineering aspects of the project including the milling characteristics of the ore (which appears to be soft), the mill design (which appears to be engineered for expansion), the down-dip expansion potential of the deposit, the regional potential for other sources of mill feed, the scale of the dry-stacked-tailings operation, and a closer look at all the mill equipment that has already been purchased.
- We were able to review the status of the permitting process with the Company. Management continues to believe it will have the final "404" permit in hand by the end of June 2014 which, in turn, would also trigger the "Final Record of Decision" (FROD).
- In addition, we were able to obtain Augusta's view on what actions the EPA might take should it disagree with the US Army Core of Engineers over granting of the "404" permit.
- We were also able to get the Company's view on the impact of any potential litigation subsequent to the granting of the FROD.
- Finally, we reviewed the current status of the Hudbay offer for Augusta. We suggest that the market is telling Hudbay its offer is wholly inadequate and is doomed to fail.

We continue to value Augusta using a 0.8x multiple of our unadjusted Rosemont $NAV_{10\%}$. We have updated our commodity price outlook following Q1 actual prices and the updated forward curve. The only significant change to our model affecting Rosemont sees 2017 copper prices dropping to US$3.08/lb, down slightly from US$3.15/lb previously. This decreases our $NAV_{10\%}$ to $5.85/share from $6.01/share previously.

We are maintaining our **SPECULATIVE BUY** recommendation and **12-month target price of C$4.25 per share** on Augusta Resource Corp.

SECTOR: METALS AND MINING

Analyst: PETER CAMPBELL, P.ENG.
e-mail: peter.campbell@jenningscapital.com
Tel: (416) 304-3963

Associate: BLAKE MORGAN
e-mail: blake.morgan@jenningscapital.com
Tel: (416) 304-3892

Rating	**SPECULATIVE BUY**
Target Price	**$4.25**
Share Price	**$3.37**
Projected Total Return	**26%**
Adjusted NAV	**$5.36**
P/NAV	**0.6x**

Market Data	
52-Week Trading Range	$0.48 - $3.64
Shares O/S, Basic (M)	145
Shares O/S, Diluted (M)	157
Market Capitalization ($M)	$487
Cash ($M)	$1
Debt ($M)	$93
Enterprise Value ($M)	$579

Key Asset Assumptions	
Rosemont Copper, Arizona (80%)	
Reserves	605Mt @ 0.44% Cu
Production Start-up	Q1 - 2017
Mine Life (years)	21
Average Copper Production (MM lbs)	237
Cash Costs ($/lb)	$1.07
Initial Capex ($M)	$1,226

Augusta Resource Corp. is the 100%-owner of its Rosemont Copper project located in Arizona, USA. Rosemont hosts a large copper/molybdenum reserve of 5.9 billion lbs of copper and 194 million lbs of molybdenum. www.augustaresource.com

SITE VISIT OPENS OUR EYES TO JUST HOW GOOD THIS PROJECT REALLY IS

Our recent site visit to Augusta's Rosemont Copper project has opened our eyes to just how good this project really is. A site visit can really convey things like scale, access and topography in a way that written documentation and photographs cannot.

First Impressions

In the eyes of some, the desert is a foreboding, uninteresting wasteland, while others see a fragile, stark beauty that is rarely encountered. We count ourselves among the second group. Perhaps surprisingly, we think Augusta is also a member of that second group. Aside from the enormous respect for the environment we witnessed on the trip, it is evident that the Company has taken extraordinary measures to ensure the natural environment is protected to the greatest extent possible. While it could be argued that is just good business practice, we note that Augusta has attempted to exceed environmental requirements by the widest of margins whenever possible. To us, that demonstrates a respect of the natural environment.

Summary of Rosemont's Mitigation Program

- Recharge of CAP (Central Arizona Project) water to replace water used (45,000 acre-feet banked to date)
- Agree to build a $20 million pipeline for CWC to bring CAP water near Green Valley
- Using filtered (i.e., "dry stacked") tailings to reduce water usage
- Recycling of process water
- Use of new LED lighting to reduce "light pollution" in night skies
- Extensive monitoring and reporting program
- Replacement of roads and recreational trail facilities
- Establishment of features to support endangered and other species
- 4,500 acres of private property and 1,700 ac-ft of water right in conservation packages.
- Long-term endowment of $25 million
- Annual community support of $500K upon production start-up

But this is not the undisturbed natural environment that local opposition groups would have you believe. First, the property is crisscrossed by US Forestry Service roads that give unfettered access to the land by the general public. Second, we witnessed evidence of land use by campers and motorized off-road vehicle enthusiasts. To be sure, the relative impact on the environment of these activities as compared to mining is orders of magnitude less. However, the depiction of the property as undisturbed land is not accurate. There is even evidence of historic mining on the property with several adits, "glory holes" and even an old slag dump on the property, the result of a long abandoned copper smelting operation.

Figure 1 Slag Dump at Rosemont

Source: http://www.azbackcountryadventures.com/rose.htm

In general, there are no domiciles, dwellings, homesteads or communities within miles of the planned mining operation.

Mine Location

It is not really apparent from any photographs or description we have read just how perfect the site is for an open pit mining operation. The proposed pit is generally located within a bowl-shaped depression in the surrounding hilly countryside. One of the clear benefits of such a location is that almost all site facilities and impacts are nearly completely hidden from view of anyone travelling along Highway 83.

Figure 2 ***View Looking East from Gunsight Pass shows Future Pit Location in Centre of Photo***

Source: Jennings Capital Inc.

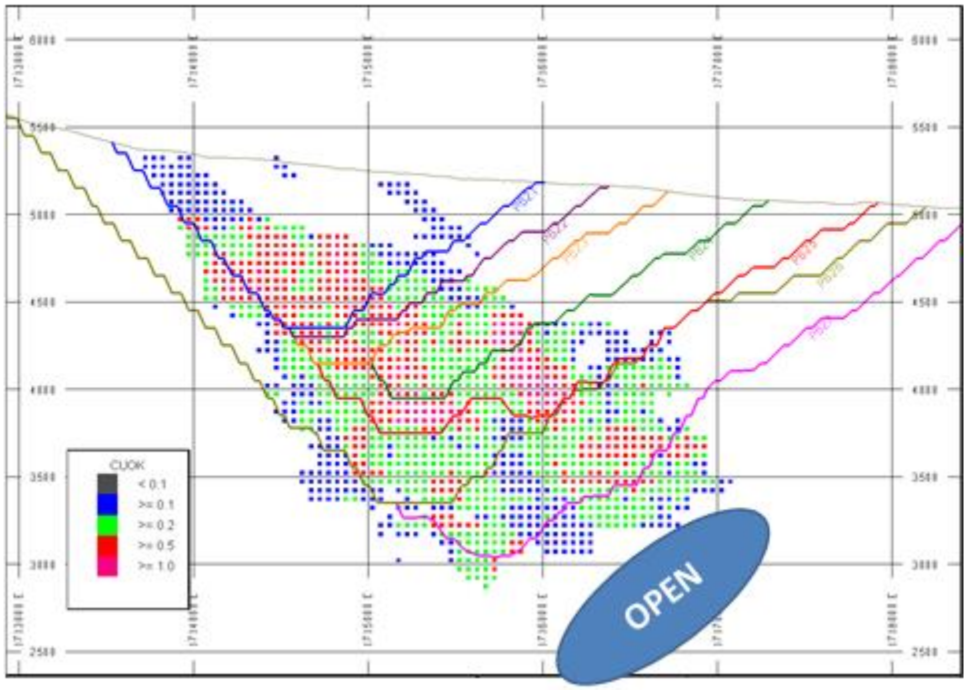
ENGINEERING ASPECTS

The Company reviewed the engineering aspects of the project with those in attendance on the site visit. While this information has been well disseminated, a few interesting details emerged during the visit.

Soft Ore: The Company highlighted the work index of the ore, which is 9.7 kW•h/T. By comparison, we note that the ore at Copper Mountain's (TSX-CUM, BUY; $2.75 Target) operation near Princeton, BC has a work index of 18.14 kW•h/T (i.e., 20 kW•h/t) and Mercator Minerals' (TSX-ML, not rated) Mineral Park operation located near Kingman, AZ has a work index of 11.78 kW•h/T. The ore at Rosemont would represent some of the softest copper ore currently being mined, as its work index is approximately half that of the copper ores in BC. The benefit, of course, is that milling costs – a significant component of total cost – ought to be on the low end of the spectrum.

Pit Limits: The current pit limits, as defined by the Updated Feasibility Study (2012), are essentially constrained by drilling and not by economics. At a 22-year mine life, there was just no rationale to more completely drill out the deposit. Our review of the drilling and current pit limits leads us to believe there remains significant up-side to overall mine life with additional drilling. At present, however, the impact on our valuation to giving any credit for a potential mine life extension beyond 22 years would be minimal. Yet, it does serve to highlight why Hudbay (TSX-HBM, not rated) has such an interest in this project.

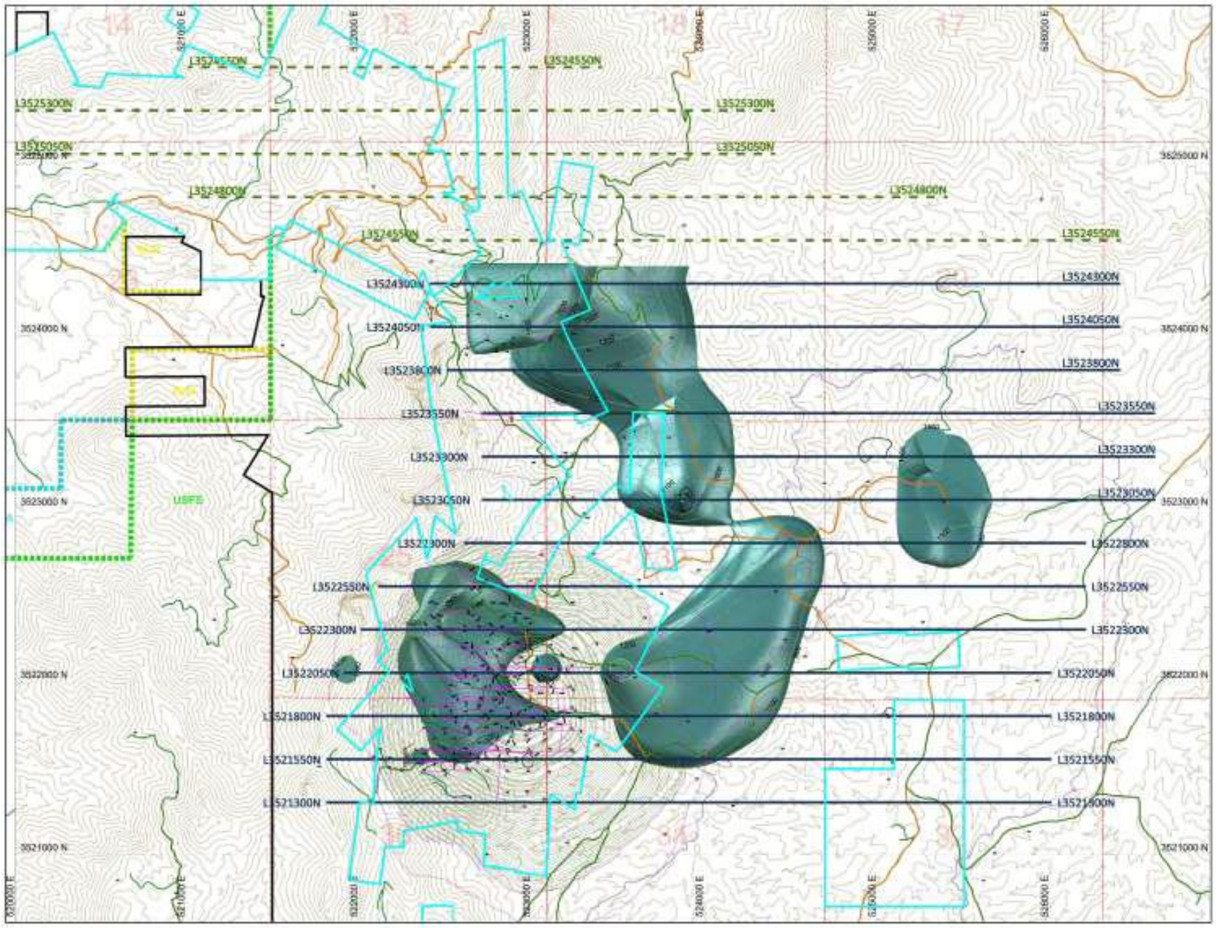
Figure 3 ***Rosemont Resource Model & Pit Limits by Mining Phase showing Potential Down Dip Extension***



Source: Augusta Resource, Jennings Capital

Regional Expansion: The Company took the opportunity to review the regional geology and highlight geophysical evidence that additional geological targets exist. These targets appear to be quite large, but also more deeply-buried than the Rosemont open pit. The Company conceptualizes a potential underground operation integrated with the planned mill and open pit. It is only quite conceptual at this stage and the Company remains 100% focused on advancing the open pit mine, but additional, mineable targets add another layer of optionality to the project.

Figure 4 ***Geophysics: IP Shells ("Induced Polarization") showing Rosemont Pit in the South-West and Other Regional Targets***



Source: Company Documents

Smart Mill Design: The basic mill design consists of a single SAG mill feeding two ball mills, resulting in a 2-line mill operation. However, during a review of detailed engineering, it appeared to us that the mill has been designed to be expanded to a 3-line operation, with room in the project footprint for a third line. In this configuration, the single SAG mill would feed all three lines. Of course, much remains to be done to ensure that even the 2-line operation is operating successfully before any expansion to three lines would be attempted. The benefit, of course, is that a significant amount of the detailed engineering for the third line is essentially complete with the plant layout built to accommodate major components. While such an expansion exists only as "dotted lines on drawings", an expansion of this sort would significantly increase anyone's valuation for the project. We do not as yet include any increase in production from a third line in our valuation for Rosemont Copper.

Dry-Stacked Tailings: Prior to our site visit, we did not fully-appreciate the scale of the dry-stacked tailings operation, or its significance to the project. The Company believes that its dry-stacked tailings operation is probably the biggest such operation in the world. We have certainly seen none larger. Dry-stacked tailings are important for two reasons at Rosemont: 1) when tailings are dried to approximately 10% moisture by weight, that means that Rosemont gets to immediately reclaim water for re-use in its milling operations; and 2) disposal of dry-stacked tailings is significantly better for the environment than traditional wet disposal (i.e., in a typical tailings pond). Dry-stacked tailings can be immediately contoured to a final profile and then immediately re-vegetated. This is one of the many, many environmentally-driven attributes of this project that we noticed on our site visit.

Figures 5 & 6 **Typical Dry-Stacked Tailings Operation (example, LHS) and Typical Wet Tailings Pond Operation (RHS)**

Source: Augusta Resource Corp.

Source: Jennings Capital

Mill Equipment: Our final stop on the tour was to visit three warehouses full of mill equipment. We observed primary crusher components, mill ring gears, mill shells, power-supply and control units, stacks of tires for pit trucks and any number of sundry components. All these items are in climate-controlled storage awaiting final approval to commence construction on the project. This gave us the sense of just how quickly mill construction could progress once final approval of the permits is obtained.

Figures 7 & 8 **Primary Crusher "Bells" (LHS) and Mill Power & Control Units (RHS)**

Source: Augusta Resource Corp.

Figures 9 & 10 Mill Ring Gears in Climate-Controlled Storage (LHS) and Truck Tires (RHS)

Source: Jennings Capital

PERMITTING

The site visit afforded us the opportunity to review the status of the permitting process with the Company. Management continues to believe it will have the final "404" permit in hand by the end of June 2104 which, in turn, would also trigger the "Final Record of Decision" (FROD). Management explained that the only thing being negotiated right now is the land exchange. The Company claims it has submitted three times the amount of land it believes ought to be required and is confident that its offer will be accepted.

We have had considerable discussions with clients concerning what the EPA is able to do and what actions it might take if it disagrees with the US Army Core of Engineers over granting of the "404" permit. When put to the Company, Management represented that, under the establish process, the US Army Core of Engineers must consult with the EPA at the local level, but the decision on the "404" rests with the Engineers. Coincidentally, both the US Army Core of Engineers and the EPA were on-site during our visit. If the Engineers and the EPA cannot reach an agreement, the EPA could potentially escalate the issue to Washington, DC. Management indicated that, in the entire history of the EPA, this has only happened 11 times, and believes that, in this case, there are just not substantive enough issues for this to occur. Given the intensive scrutiny and painstaking process that Augusta has been through to get the Rosemont Copper project to this stage, we would agree with the Company.

We then took the Company on a "forward-looking" conversation regarding the potential for litigation following issuance of the "404" and the FROD. To this, Management responded that subsequent litigation is a near certainty. However, there are two important aspects to any potential litigation. First, the litigation would have to be brought against one of the government agencies and not against Augusta. The second aspect is whether or not the case would be accompanied by "injunctive relief". Specifically, Management is referring to whether or not work on the project would be halted as a result of an injunction accompanying the litigation. In order to have such an injunction granted, the plaintiff would have to demonstrate egregious non-conformance with the permitting process. With the detailed and painstaking process that the Company has been through to this point, we find it difficult to believe that an egregious oversight could be demonstrated by the regulators. The Company therefore believes that there is a near-zero probability that an injunction halting work on the project would ever be granted. Augusta cited the case of Barrick's (TSX-ABX, not rated) Cortez project in Nevada, which was allowed to operate while certain water studies were completed. In this case, the studies were completed and the recommended remediation measures were implemented by Barrick. The Company also cited a case involving Quadra's Carlotta mine (now KGHM) which is still under some kind of litigation even though the mine is basically winding down operations. **The point of these examples is to demonstrate that, even though there might be a high likelihood of litigation to follow the granting of the permits, the Company would not be the defendant in these cases nor would it be prevented from undertaking work on the project.**

HUDBAY'S UNSOLICITED OFFER

An update on Augusta at this time would be incomplete without including commentary on the unsolicited offer by Hudbay. As a refresher, we summarize a chronology of key events to date:

February 10: Hudbay makes offer to acquire all of the issued and outstanding common shares of Augusta Resource Corp. not already owned by Hudbay. Under the terms of the offer, Augusta shareholders are offered 0.315 of a Hudbay share for each Augusta share. As of the offer date, the offer valued Augusta at approximately $2.96 per share. Augusta shares closed at $2.51 the day before the offer was made. The offer was subject to 66-2/3% acceptance by Augusta shareholders and was to expire on March 19.

February 24: Augusta, under advice of its advisors, recommends rejecting the Hudbay offer.

March 14: Hudbay extends its offer to April 2 and waives the minimum tender condition.

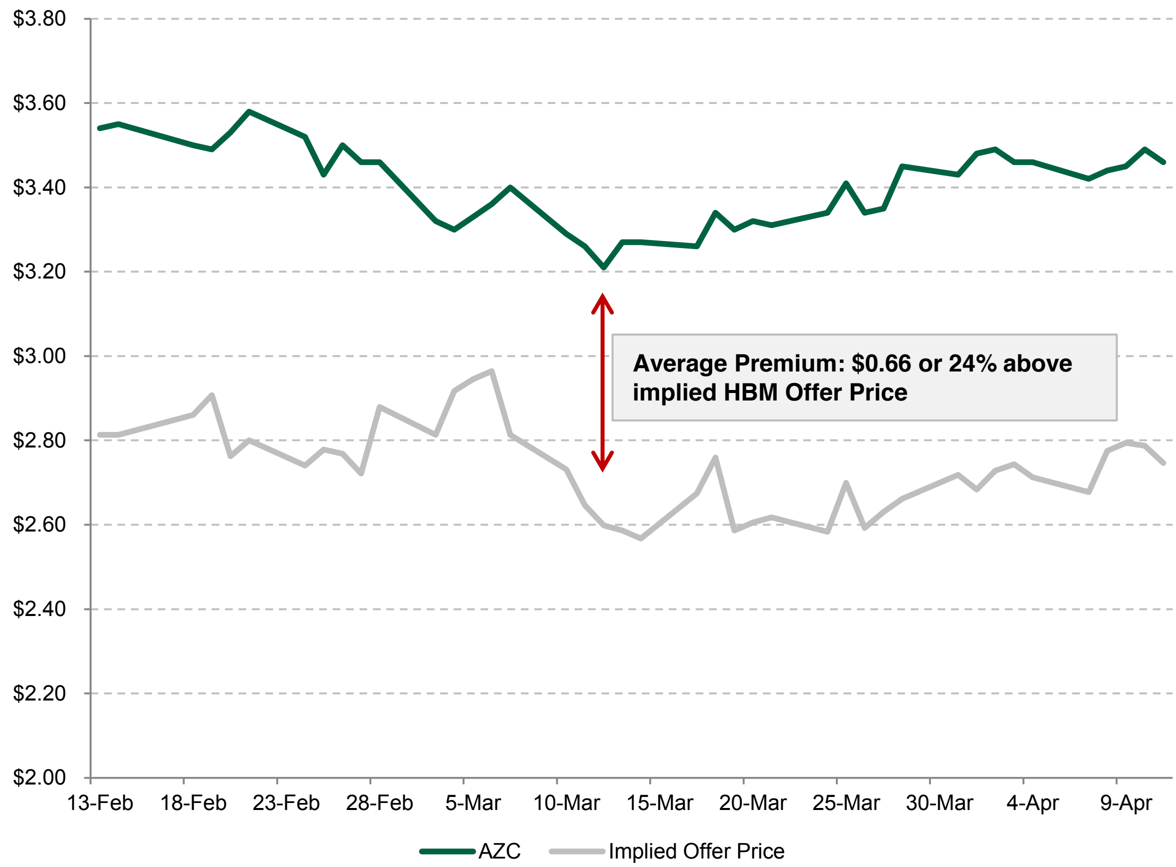
March 28: Augusta reports that, its strategic review process has generated strong interest and has resulted in nine interested parties signing confidentiality agreements. Augusta also sets its annual and special meeting of shareholders for May 9, 2014, during which shareholders will be asked to determine whether to continue the shareholder rights plan or have it terminate.

March 31: Hudbay again extends its offer to May 5 and states that it will not extend the offer beyond that date.

April 8: Augusta reschedules its annual and special shareholder meeting to May 2, 2014, in order that Augusta shareholders be allowed to vote on continuance of the SRP prior to the expiry of Hudbay's offer.

We have no direct knowledge of the internal workings on either side of this process. **However, it is our belief that the uptake on Hudbay's offer has been minimal.** If there has been significant uptake on Hudbay's offer, we would expect Hudbay to reveal the number of pro forma shares it now owns. Since the offer, Augusta's shares have traded at a significant premium to the offer.

Figure 11 *Inferred Premium to the Hudbay Offer*



Source: Jennings Capital

Reading the tea leaves of the current situation leads us to believe that the Hudbay offer is doomed to fail. The market is telling Hudbay what it believes is a fair price.

We continue to value Augusta using a 0.8x multiple of our unadjusted Rosemont $NAV_{10\%}$. We have updated our commodity price outlook following Q1 actual prices and the updated forward curve. The only significant change to our model affecting Rosemont sees 2017 copper prices dropping to US$3.08/lb, down slightly from US$3.15/lb previously. This decreases our $NAV_{10\%}$ to $5.85/share, from $6.01/share previously.

We are maintaining our **SPECULATIVE BUY** recommendation and **12-month target price of C$4.25 per share.**

Figure 12 NAV Summary and Target Price Calculation

	Discount	C$ Million	C$/Share
Rosemont Copper (80%)	10.0%	$919	$5.85
Project NAV		**$919**	**$5.85**
Cash & Equivalents (Est.)		$26	$0.17
Debt (Est.)		($119)	($0.76)
Options & Warrants (Sep. 30/13)		$16	$0.10
Adjusted NAV		**$843**	**$5.36**
Current Share Price			**$3.37**
P/Adjusted NAV			**0.63x**

	C$/Share
Project NAV	$5.85
Target Multiple	0.80x
Unadjusted Valuation	**$4.68**
Adjustments	($0.49)
Total Valuation	**$4.19**
12-Month Target	**$4.25**
Implied Return	**26%**

Source: Jennings Capital Inc.

IMPORTANT RESEARCH DISCLOSURES

ANALYST CERTIFICATION:

I, **PETER CAMPBELL**, hereby certify that (i) the views expressed in this report accurately reflect my personal views about the subject securities or issuers discussed herein that are within my coverage universe; and (ii) I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report. In addition, each research analyst or associate whose name appears on the front page of this document hereby certifies that:

- I have not effected a trade in a security of any class of the issuer whether directly or indirectly through derivatives within the 30-day period prior to the date of the publication of this research report.
- I did not distribute the research report to the issuer, any employee in the investment banking department at Jennings, or any other third party for any reason other than the verification of factual information.
- Any and all reports or studies by a third-party expert consulted in preparing the research report have been cited in the report.
- I am unaware of any other potential conflicts of interest.

STOCK RATINGS:

BUY: Stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months.

SPECULATIVE BUY: Stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months; however, there is material event risk associated with the investment

HOLD: Stock is expected to provide a total return of 0% to 10% over the current trading price over the next 12 months.

SELL: Stock is expected to provide a negative total return over the next 12 months.

UNDER REVIEW: There are new developments on the Company and pending receipt of full information from management, the stock is under review.

NOT RATED: Jennings Capital Inc. follow the stock, but have no formal estimates, recommendation or target.

RISK RATINGS:

LOW/AVERAGE RISK: Stocks with less volatility than the market as a whole, with solid balance sheets and dependable earnings.

ABOVE AVERAGE RISK: Stocks with more volatility than the market. Financial leverage is considerable but not threatening, earnings are more erratic, or other quality concerns regarding accounting, management track record, and similar issues.

SPECULATIVE RISK: Stocks of unproven companies or ones with very high financial leverage, suspicious accounting, or with other significant quality concerns. A Speculative Risk rating implies at least the possibility of, among other things, financial distress, restructuring or a material loss.

APRIL 2014
DISTRIBUTION OF RATINGS

RATING	***#***
BUY	18
SPECULATIVE BUY	10
HOLD	1
SELL	1
TENDER TO OFFER	0
UNDER REVIEW	7
RESTRICTED	0
Total # of Companies Covered	**37**

Revised Monthly

U.S. CLIENT DISCLOSURES

This research report was prepared by Jennings Capital Inc., a member of the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund and a Participating Organization of the Toronto Stock Exchange and the TSX Venture Exchange. Jennings Capital Inc. is an affiliate of Jennings Capital (USA) Inc. Jennings Capital (USA) Inc. accepts responsibility for the contents of this research report, subject to the terms and limitations as set out above. Jennings Capital (USA) Inc. is a registered broker-dealer with the Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority (FINRA). U.S residents seeking to effect a transaction in any security discussed herein should contact a General Securities Representative at Jennings Capital (USA) Inc. directly at 1-877-214-3303.

JENNINGS CAPITAL INC. MAY NOT BE SUBJECT TO U.S. RULES WITH REGARD TO THE PREPARATION OF RESEARCH REPORTS AND THE INDEPENDENCE OF ANALYSTS.

This report does not constitute an offer to sell or the solicitation of an offer to buy any of the securities discussed herein. Any transaction in these securities by U.S. persons must be effected through either Westminster Securities Corporation, a U.S. broker-dealer registered with the Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority (FINRA) and the New York Stock Exchange Inc. or through Jennings Capital (USA) Inc., A U.S. broker-dealer registered with the Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority (FINRA).

U.S. PERSONS

This research report was prepared by an affiliate of Jennings Capital (USA) Inc. or other person that may not be registered as a broker-dealer in the United States. The firm that prepared this report may not be subject to U.S. rules regarding the preparation of research reports and the independence of research analysts.

Subject to the limitations on liability described above, Jennings Capital (USA) Inc. takes responsibility for the content of this research report in accordance with Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended. All transactions by U.S. persons in securities discussed in this report must be performed through Jennings Capital (USA) Inc.

U.K. CLIENT DISCLOSURES

This research report was prepared by Jennings Capital Inc., a member of the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund and a Participating Organization of the Toronto Stock Exchange and the TSX Venture Exchange.

JENNINGS CAPITAL IS NOT SUBJECT TO U.K. RULES WITH REGARD TO THE PREPARATION OF RESEARCH REPORTS AND THE INDEPENDENCE OF ANALYSTS.

The contents hereof are intended solely for the use of, and may only be issued or passed on to persons described in part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

This report does not constitute an offer to sell or the solicitation of an offer to buy any of the securities discussed herein.

DISSEMINATION OF RESEARCH

Jennings Capital Inc. research is disseminated directly to clients via email and is available on Bloomberg, Reuters, Thomson Financial, Capital IQ, Research Direct and at www.jenningscapital.com. Jennings Capital Inc. research dissemination policies are available upon request.

Security Abbreviations: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares); MV (multiple voting shares).

Quarterly Recommendation Hierarchy: Is a ranking distribution identifying the percentage of total, number, and the investment banking relationship (%) for all recommendation categories that can be found on the Jennings Capital Inc. website (www.jenningscapital.com).

Analyst Stock Holdings: Equity Research analysts, associates and members of their households are permitted to invest in securities covered by them. No Jennings Capital Inc. analyst, associate or employee involved in the preparation of an analyst report is permitted to effect a trade in the security of an issuer whereby there is an outstanding recommendation for a period of 30 calendar days before and 5 calendar days after issuance of the research report

Compensation: The compensation of the analyst and/or associate who prepared this research report is based upon, in part, the overall revenues and profitability of Jennings Capital Inc. Analysts are compensated on a salary and bonus system. Some factors affecting compensation including the productivity and quality of research, support to institutional, retail and investment bankers, net revenues to the equity and investment banking revenue as well as compensation levels for analysts at competing brokerage dealers. Analysts are not directly compensated for specific Investment Banking transactions.

Jennings Capital Inc. Relationships: Jennings Capital Inc. may receive or seek compensation for investment banking services from all issuers under research coverage within the next 3 months.

Jennings Capital Inc. or its officers, employees or affiliates may execute transactions in securities mentioned in this report that may not be consistent with the report's conclusions

THIS IS AN ISSUER RELATED PUBLICATION

COMPANY SPECIFIC RESEARCH DISCLOSURES

NAME	RELEVANT DISCLOSURES
Augusta Resource Corp.	3

DISCLOSURE CODES

The authoring analyst, a member of his/her household, or any individual directly involved in the preparation of this research report has a long/short position in the issuer's securities or through derivatives or any other financial interest in the securities of the relevant issuer.	1
In the past 12 months, Jennings Capital Inc. and/or its affiliates received compensation for Corporate Finance/Investment Banking and related services from the relevant issuer.	2
In the past 12 months, Jennings Capital Inc. and/or its affiliates, acted as lead manager or co-lead manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities or in any related derivatives of the relevant issuer.	2A
In the past 12 months, Jennings Capital Inc. and/or its affiliates have received compensation for non-investment banking related services	2B
The analyst has viewed the material operations of the relevant issuer; the extent to which the analyst has viewed the operations is available on request.	3
Partial payment or reimbursement was received from the issuer for related travel expenses.	4
Jennings Capital Inc., and/or its affiliates, is a market maker or liquidity provider in the securities of the relevant issuer or in such related derivatives of the relevant issuer.	5
As of the end of the month immediately preceding the date of publication of the research report, or the end of the second most recent month if the publication date is less than 10 calendar days following the most recent month end, Jennings Capital Inc. and/or its affiliates beneficially owned 1% or more of any class of equity securities of the relevant issuer.	6
A partner, director, officer or agent of Jennings Capital Inc., and/or its affiliates, or a member of its household, serves as an officer, director, employee issuer, or Advisory Board Member of the relevant issuer; and such person's name is disclosed above.	7
In the past 12 months, Jennings Capital Inc. and/or its affiliates, officers or directors, or any authoring analyst involved in the preparation of this research report provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.	8