

Mining

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Industry Brief

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Uranium & Junior Exploration | Platinum

**Mining: Johnson Matthey Interim 2011 Report- Still Bullish on Palladium in 2012, Neutral on Platinum**

On Nov-15-11, Johnson Matthey (JM) released its biannual supply/demand report on the PGM sector. The following are the salient conclusions:

**Platinum (Pt)**

- ♦ **2011E Outlook – Bit More Bearish:** The market is to be in surplus in 2011E by 195,000 oz (vs. "close to balance" in its May-2011 report), vs. a 25,000 oz deficit in 2010A. We estimate the 2011E surplus represents only about 11 days of demand (6.2Moz/yr in 2011E) – so it could still be argued the market is roughly “close to balance”.
- ♦ **2012E Outlook – Neutral:** The market is to be in surplus in 2012E “but not by a significant amount”. No numerical estimates were given. Small increases in supply and to be largely offset by growth in auto demand (from heavy duty vehicle fleet renewals, recovery in Japanese vehicle output), electronics and Chinese jewelry.

**Palladium (Pd)**

- ♦ **2011E Outlook – More Bearish:** The market is to be in surplus in 2011E by 725,000oz (a rather large departure from "another deficit" stated in May-2011 report). The key change appears to be ETF selling from the United States. Russian stockpile sales were 750koz in 2011E, 25% lower than in 2010A - seemingly confirming media reports of waning stockpiles. However, this drop was not large enough to offset ETF selling.
- ♦ **2012E Outlook – Still Bullish:** JM expects the market in 2012E to be in deficit (no specific numbers given). Recall we expect 2012E and 2013E Russian stockpile sales to be about 150koz/yr – significantly lower than 750koz in 2011E). JM also sees lower Russian stockpiles and notes auto demand growth (greater substitution into diesels and growth in Asia and the Americas). Industrial and investment demand are also expected to grow.

**Rhodium (Rh)**

- ♦ **2011E Outlook – Bit More Bearish:** The market is expected to be in a slightly higher surplus than last year (123koz vs. 88koz in 2010A). This increase reflects a 5% increase in expected supply and flat expected demand y/y.
- ♦ **2012E Outlook – Bit More Bullish:** JM expects the market to tighten but remain in surplus. Supplies are expected to rise (higher mine output and recycling), more than offset by growth in auto demand (return to full Japanese production; Asian demand).

**Conclusion**

The above estimates underline our positive view on PDL, which should benefit from upward price pressure on Pd in 2012E. A more near-term bearish view on Pt explains the recent share price weakness in ELR. We note, however, ELR should benefit from improving Rh fundamentals in 2012E, as well as, a significantly weaker Rand (currently 8.4 R/US from 6.8 R/US in Aug-2011). We also note JM’s forecasts do not seem to assume any Eskom electricity shortage risk – which in our view would be positive for ELR and PDL.

Company	Ticker Primary	Ticker Secondary	Current Price	Rating
<b>Platinum</b>				
Anooraq Resources Corp.	ARQ-TSXV	ANO-AMEX	C\$0.49	Market Perform 3
Eastern Platinum Ltd.	ELR-TSX	ELR-AIM	C\$0.55	Outperform 2
North American Palladium Ltd.	PDL-TSX	PALA-AMEX	US\$2.87	Outperform 2
Platinum Group Metals Ltd.	PTM-TSX	PLG-AMEX	C\$1.19	Outperform 2

Raymond James Ltd.

**Exhibit 1. Platinum Supply/Demand (2011E new data)**

Global Platinum 000s oz	2005A	2006A	2007A	2008A	2009A	2010A	2011E Nov-11	% Chg Y/Y	% Total
<b>Supply</b>									
South Africa	5,115	5,295	5,070	4,515	4,635	4,635	4,775	3.0%	75%
Russia	890	920	915	805	785	825	825	0.0%	13%
North America	365	345	325	325	260	200	360	80.0%	6%
Others*	270	270	290	295	345	390	435	11.5%	7%
	6,640	6,830	6,600	5,940	6,025	6,050	6,395	5.7%	100%
<b>Demand</b>									
Autocatalyst (net)	3,025	3,045	3,210	2,525	1,355	1,990	1,980	-0.5%	32%
Chemical	325	395	420	400	290	440	480	9.1%	8%
Electrical (net)	360	360	255	225	180	220	240	9.1%	4%
Glass	360	405	470	315	10	385	435	13.0%	7%
Investment	15	-40	170	555	660	655	495	-24.4%	8%
Jewellery (net)	1,965	1,640	1,455	1,365	2,245	1,685	1,775	5.3%	29%
Petroleum	170	180	205	240	210	170	210	23.5%	3%
Other**	475	490	495	535	440	530	585	10.4%	9%
	6,695	6,475	6,680	6,160	5,390	6,075	6,200	2.1%	100%
<b>Surplus (annual)</b>	<b>-55</b>	<b>355</b>	<b>-80</b>	<b>-220</b>	<b>635</b>	<b>-25</b>	<b>195</b>	nm	-
<b>- in days of demand</b>	<b>-3</b>	<b>20</b>	<b>-4</b>	<b>-13</b>	<b>43</b>	<b>-2</b>	<b>11</b>	nm	-
<b>Cum. Deficit ('75-'10)</b>	<b>-2,185</b>	<b>-1,830</b>	<b>-1,910</b>	<b>-2,130</b>	<b>-1,495</b>	<b>-1,520</b>	<b>-1,325</b>	-12.8%	-
<b>- in days of demand</b>	<b>-119</b>	<b>-103</b>	<b>-104</b>	<b>-126</b>	<b>-101</b>	<b>-91</b>	<b>-78</b>	-14.6%	-

Supply went up 6% y/y on growth from North America and Zimbabwe;

Demand went up 2% y/y (despite lower investment demand) on glass, jewelry and other factors;

A surplus of 195koz is only 11 days of demand (so market "roughly in balance")

Notes: \* includes Zimbabwe; \*\* includes Medical & Biomedical  
Source: Raymond James Ltd., Johnson Matthey

**Exhibit 2. Palladium Supply/Demand (2011E new data)**

Global Palladium 000s oz	2005A	2006A	2007A	2008A	2009A	2010A	2011E Nov-11	% Chg Y/Y	% Total
<b>Supply</b>									
South Africa	2,605	2,775	2,765	2,430	2,370	2,640	2,610	-1.1%	35%
Russia Primary	4,620	3,920	4,540	3,660	3,635	3,720	3,450	-7.3%	46%
(incl. Russian stockpiles)	1,485	700	1,490	960	960	1,000	750	-25.0%	10%
North America	910	985	990	910	755	590	945	60.2%	13%
Others*	270	270	285	310	340	405	415	2.5%	6%
	8,405	7,950	8,580	7,310	7,100	7,355	7,420	0.9%	100%
<b>Demand</b>									
Autocatalyst gross	3,865	4,015	4,545	4,465	4,050	5,580	5,915	6.0%	88%
Autocatalyst recovery	-625	-805	-1015	-1140	-965	-1,310	-1,505	14.9%	-22%
Autocatalyst net	3,240	3,210	3,530	3,325	3,085	4,270	4,410	3.3%	66%
Chemical	415	440	375	350	325	370	455	23.0%	7%
Dental	815	620	630	625	635	595	595	0.0%	9%
Electrical (net)	970	1,205	1,235	1,025	975	970	1,005	3.6%	15%
Jewellery (net)	1,430	1,005	715	855	705	495	335	-32.3%	5%
Investment	220	50	260	420	625	1,095	-215	-119.6%	-3%
Other	265	85	85	75	70	90	110	22.2%	2%
	7,355	6,615	6,830	6,675	6,420	7,885	6,695	-15.1%	100%
<b>Surplus (annual)</b>	<b>1,050</b>	<b>1,335</b>	<b>1,750</b>	<b>635</b>	<b>680</b>	<b>-530</b>	<b>725</b>	-236.8%	-
<b>in days of demand</b>	<b>52</b>	<b>74</b>	<b>94</b>	<b>35</b>	<b>39</b>	<b>-25</b>	<b>40</b>	-261.1%	-
<b>Cum. Surplus ('80-'09)</b>	<b>5,440</b>	<b>6,775</b>	<b>8,525</b>	<b>9,160</b>	<b>9,840</b>	<b>9,310</b>	<b>10,035</b>	7.8%	-
<b>in days of demand</b>	<b>270</b>	<b>374</b>	<b>456</b>	<b>501</b>	<b>559</b>	<b>431</b>	<b>547</b>	26.9%	-

Supply stayed relatively unchanged;

Demand was down 15% y/y, hit hard by liquidation of ETFs (net supply) in the US and much lower net jewelry demand

The market swung back to a sizable surplus (about 40 days of demand)

Note: \* Production from "Others" includes Zimbabwe  
Source: Raymond James Ltd., Johnson Matthey

**Exhibit 3. Rhodium Supply/Demand (2011E new data)**

Global Rhodium 000s oz	2005A	2006A	2007A	2008A	2009A	2010A	2011E Nov-11	% Chg Y/Y	% of Total
<b>Supply</b>									
South Africa	627	666	696	574	663	632	650	2.8%	84.6%
Russia	90	100	90	85	70	70	68	-2.9%	8.9%
North America	20	17	20	18	15	10	20	100.0%	2.6%
Others*	17	19	18	18	22	22	30	36.4%	3.9%
	754	802	824	695	770	734	768	4.6%	100.0%
<b>Demand</b>									
Autocatalyst: gross	829	863	887	768	619	727	705	-3.0%	109.3%
Autocatalyst: recovery	-137	-171	-192	-224	-187	-241	-260	7.9%	-40.3%
Autocatalyst net	692	692	695	544	432	486	445	-8.4%	69.0%
Industrial	135	146	149	129	97	160	200	25.0%	31.0%
Chemical	48	49	63	68	54	67	72	7.5%	11.2%
Electrical	10	9	3	3	3	4	6	50.0%	0.9%
Glass	57	65	59	34	19	68	85	25.0%	13.2%
Other	20	23	24	24	21	21	37	76.2%	5.7%
	827	838	844	673	529	646	645	-0.2%	100.0%
<b>Surplus (annual)</b>	<b>-73</b>	<b>-36</b>	<b>-20</b>	<b>22</b>	<b>241</b>	<b>88</b>	<b>123</b>	39.8%	-
<b>in days of demand</b>	<b>-32</b>	<b>-16</b>	<b>-9</b>	12	166	50	70	40.0%	-
<b>Cum. Surplus ('85-'09)</b>	<b>251</b>	<b>215</b>	<b>195</b>	<b>220</b>	<b>461</b>	<b>549</b>	<b>672</b>	22.4%	-
<b>in days of demand</b>	111	94	84	119	318	310	380	22.6%	-

Supply was up 5% mostly on South Africa;

Demand was relatively unchanged reflecting an 8% drop in autocat demand and offsetting increases in all other sectors;

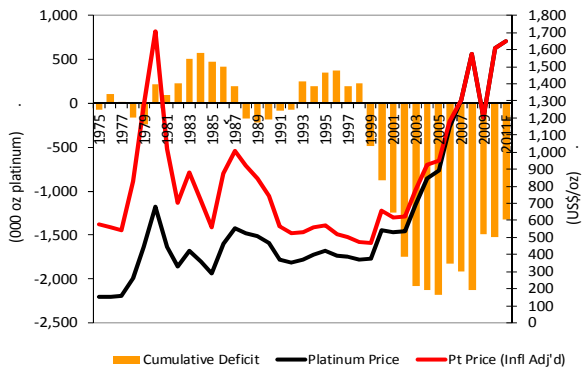
The surplus increased 40% y/y and now represents a fairly sizable 70 days of demand

Note: \* Production from "Others" includes Zimbabwe

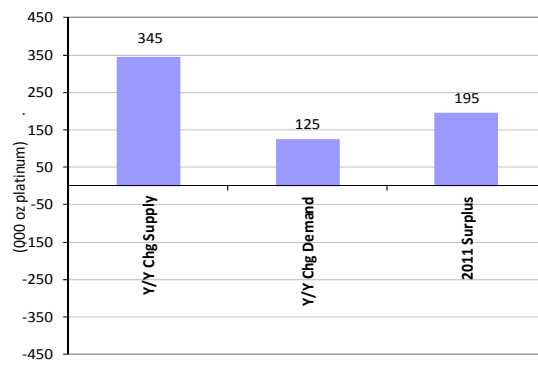
Source: Raymond James Ltd., Johnson Matthey

**Platinum Charts**

**Exhibit 4. Left: Platinum Cumulative Deficit (1975-2011E) vs. Platinum Price; Right: 2011E Y/Y Change in Supply, Demand and Market Balance**



Source: Johnson Matthey, Raymond James Ltd.

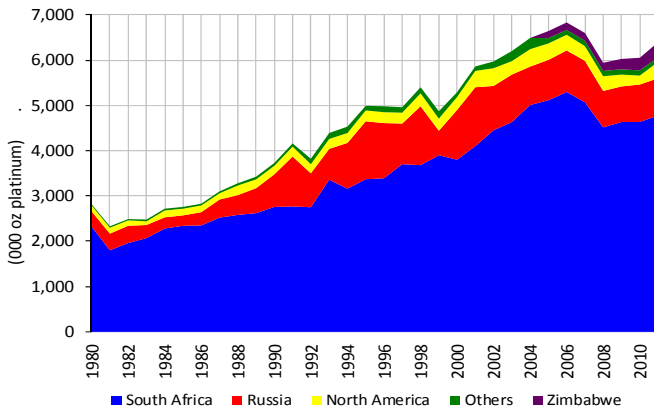


Source: Johnson Matthey, Raymond James Ltd.

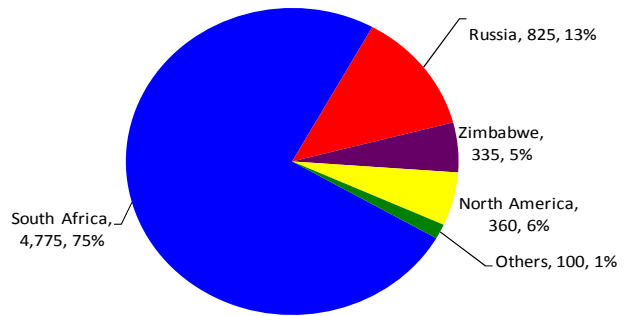
The cumulative deficit since 1999 is getting eroded slowly (see orange bars on left) – slightly bearish;

Supply growth is the main culprit in the platinum surplus in 2011E (see blue bars on right)

**Exhibit 5. Platinum Supply Per Country (Time Series on Left; 2011E Pie Chart on Right)**

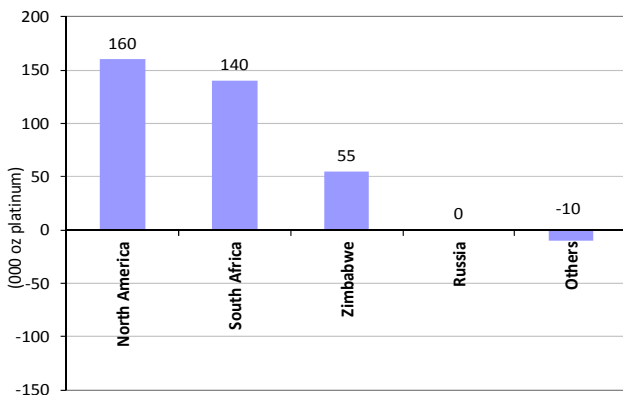


Source: Johnson Matthey, Raymond James Ltd.



Source: Johnson Matthey, Raymond James Ltd.

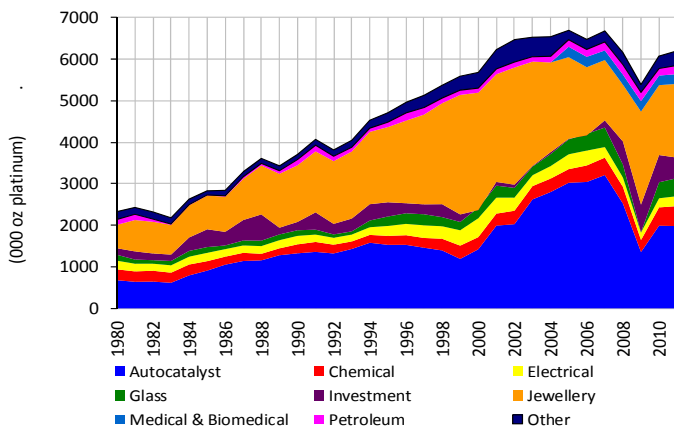
**Exhibit 6. Platinum: 2011E Y/Y Change in Supply per Country**



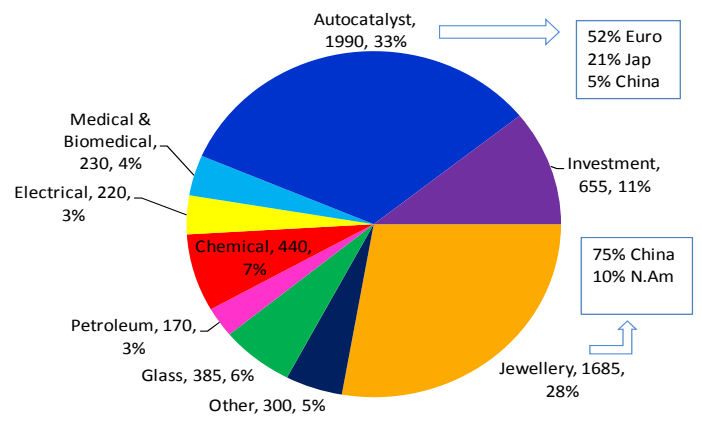
Source: Johnson Matthey, Raymond James Ltd.

2011E Platinum Supply growth was mainly due to North America and South Africa

**Exhibit 7. Platinum Demand per Category (Time-Series on Left; 2011E Pie Chart on Right)**

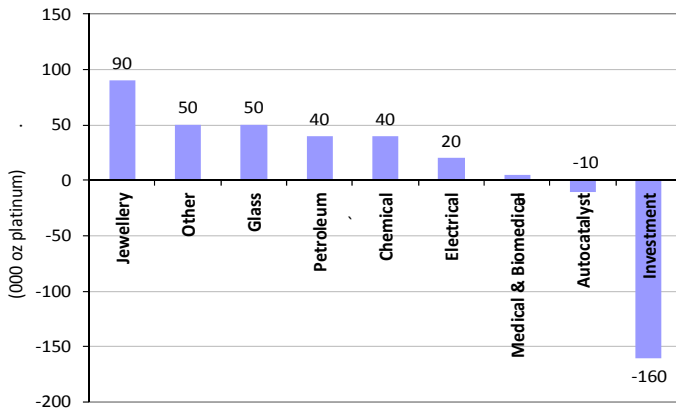


Source: Johnson Matthey, Raymond James Ltd.



Source: Johnson Matthey, Raymond James Ltd.

**Exhibit 8. Platinum: 2011E Y/Y Change in Demand per Category**



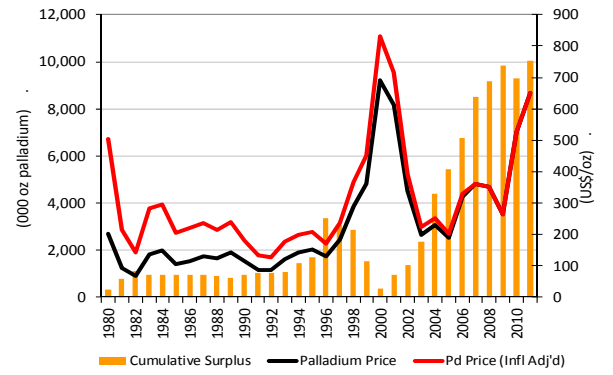
Source: Johnson Matthey, Raymond James Ltd.

Platinum investment demand is expected to drop off significantly y/y in 2011E, however, it's still a net use (i.e. not a net supply)

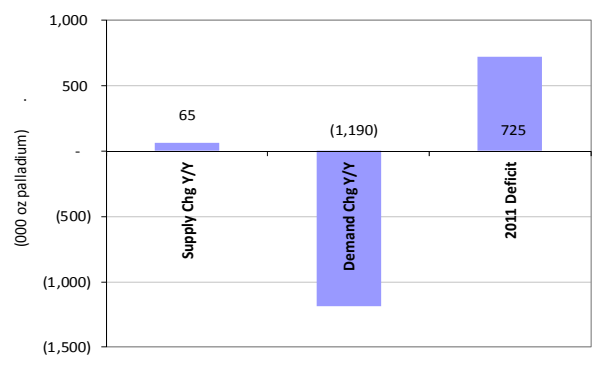
Jewelry and glass were offsetting factors

**Palladium Charts**

**Exhibit 9. Left: Palladium Cumulative Deficit (1975-2011E) vs. Platinum Price; Right: 2011E Y/Y Change in Supply, Demand and Market Balance**



Source: Johnson Matthey, Raymond James Ltd.

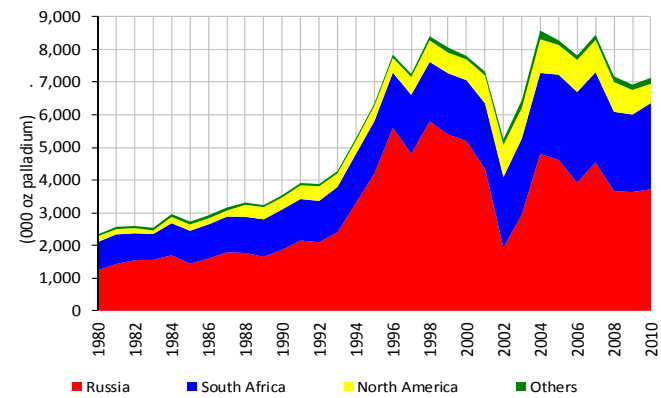


Source: Johnson Matthey, Raymond James Ltd.

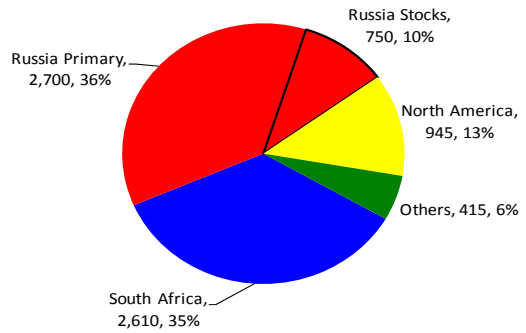
Cumulative surplus expected to resume its rise in 2011E (after starting to erode in 2010A);

Lower net demand (ETF redemptions) is main culprit in the projected '11E surplus

**Exhibit 10. Palladium Supply by Country (Left: Time Series; Right: 2011E Pie Chart)**

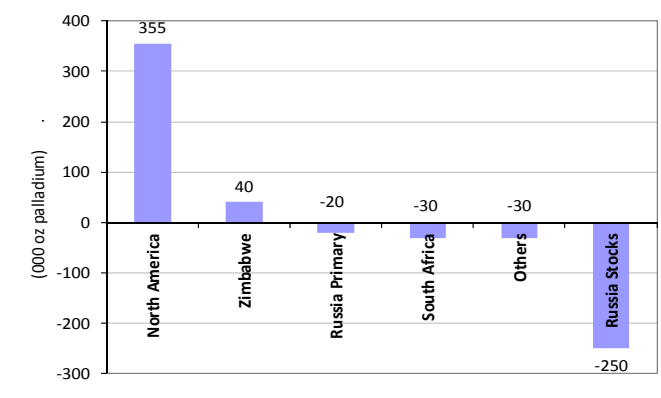


Source: Johnson Matthey, Raymond James Ltd.



Source: Johnson Matthey, Raymond James Ltd.

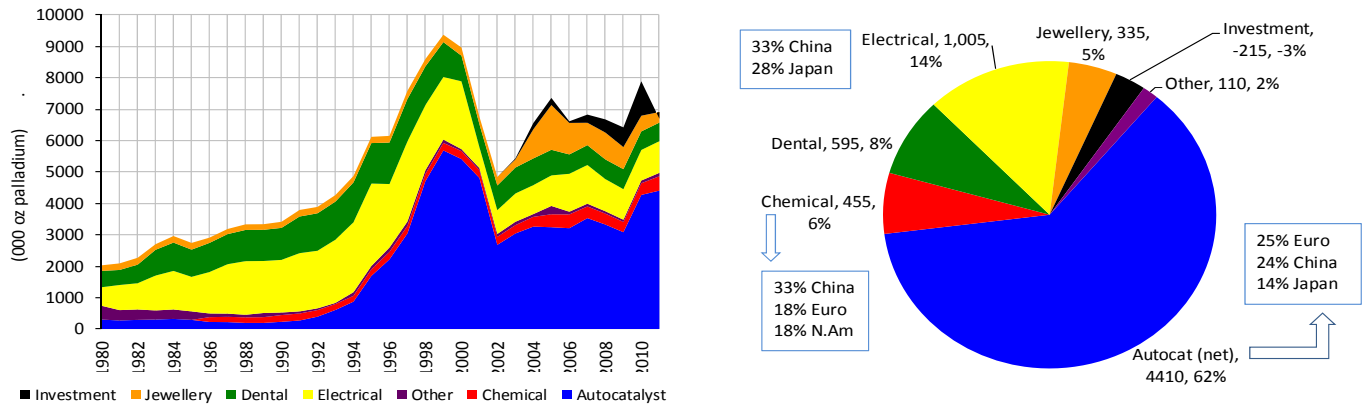
**Exhibit 11. Palladium: 2011E Y/Y Change in Supply per Country**



Source: Johnson Matthey, Raymond James Ltd.

Russian stocks largely offset the effect of rising production in North America

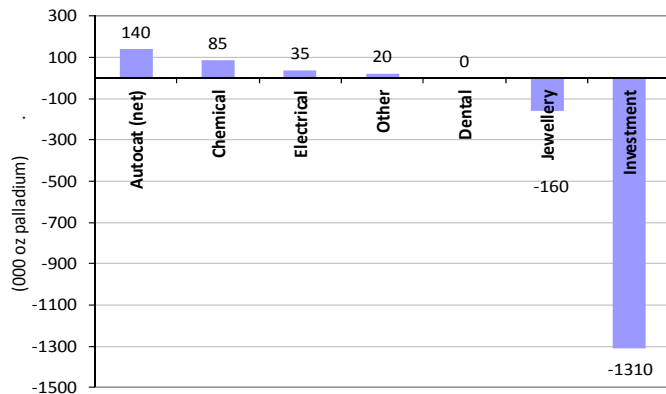
**Exhibit 12. Palladium Demand per Category (Left: Time-Series; Right: 2011E Pie Chart)**



Source: Johnson Matthey, Raymond James Ltd.

Source: Johnson Matthey, Raymond James Ltd.

**Exhibit 13. Palladium: 2011E Y/Y Change in Demand per Category**

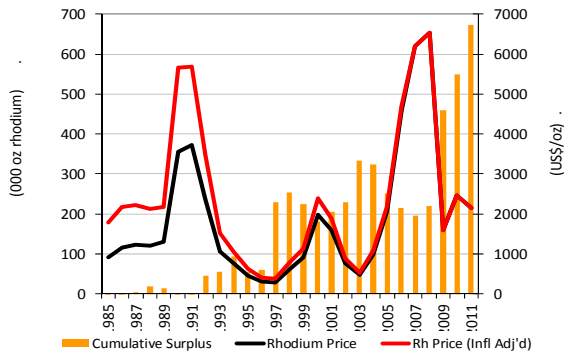


Source: Johnson Matthey, Raymond James Ltd.

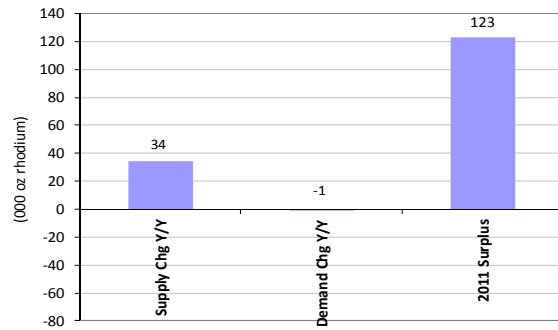
**Significant ETF redemptions (primarily from US) are projected to lead investment demand to flip to a source of supply (from source of demand)**

### Rhodium Charts

**Exhibit 14. Left: Rhodium Cumulative Deficit (1985-2011E) vs. Platinum Price; Right: 2011E Y/Y Change in Supply, Demand and Market Balance**



Source: Johnson Matthey, Bloomberg, Raymond James Ltd.

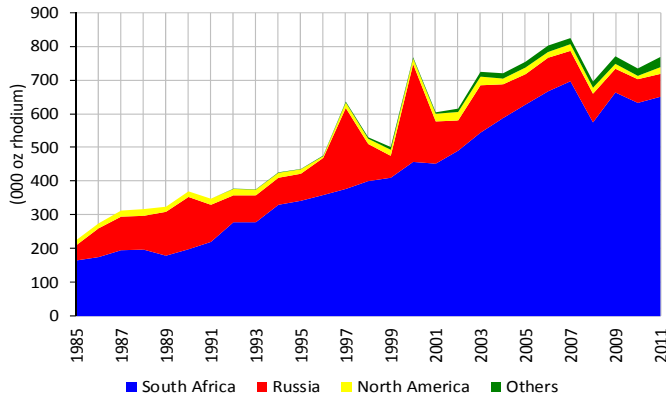


Source: Johnson Matthey, Raymond James Ltd.

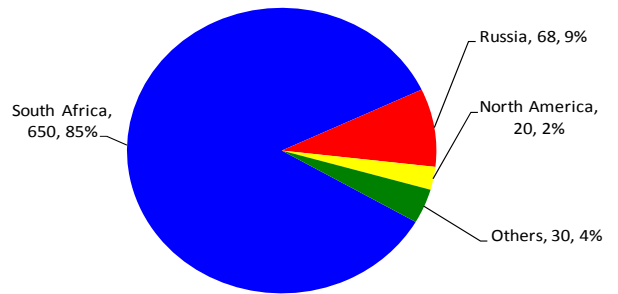
Cumulative surplus is projected to rise substantially in 2011E (see orange bars on Left)

Supply growth is key culprit causing surplus...

**Exhibit 15. Rhodium Supply by Country (Left: Time Series; Right: 2011E Pie Chart)**

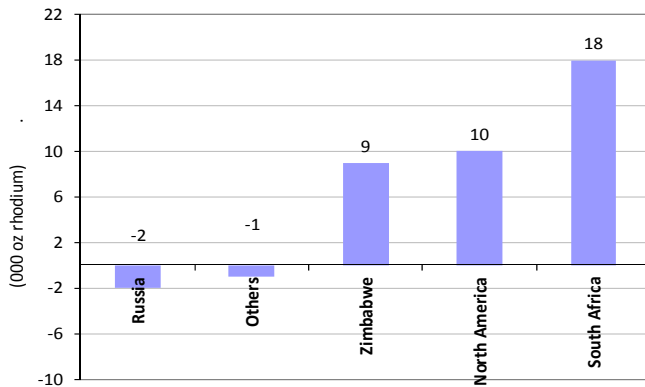


Source: Johnson Matthey, Raymond James Ltd.



Source: Johnson Matthey, Raymond James Ltd.

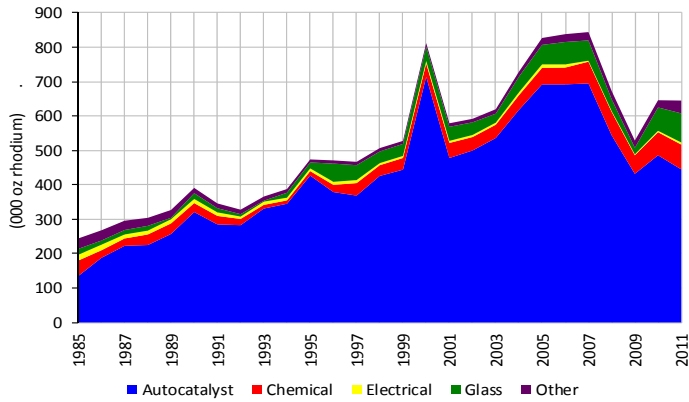
**Exhibit 16. Rhodium: 2011E Y/Y Change in Supply per Country**



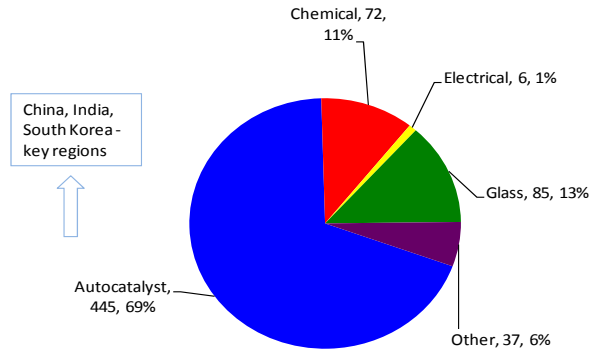
Source: Johnson Matthey, Raymond James Ltd.

South Africa, North America and Zimbabwe all projected to increase their rhodium output in 2011E

**Exhibit 17. Rhodium Demand per Category (Left: Time-Series; Right: 2011E Pie Chart)**

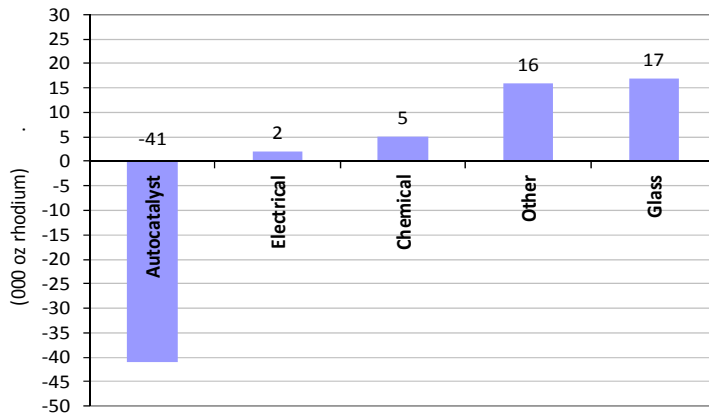


Source: Johnson Matthey, Raymond James Ltd.



Source: Johnson Matthey, Raymond James Ltd.

**Exhibit 18. Rhodium: 2011E Y/Y Change in Demand per Category**



Source: Johnson Matthey, Raymond James Ltd.

**Autocatalyst demand is projected to continue its slide in 2011E, offset entirely by glass and other applications**

**New Rhodium ETF has not yet made a dent in demand**

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**Strong Buy (SB1)** The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. **Outperform (MO2)** The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. **Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. **Underperform (MU4)** The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

### Raymond James & Associates (U.S.) definitions

**Strong Buy (SB1)** Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months. **Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months. **Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months. **Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold. **Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

### Raymond James Latin American rating definitions

**Strong Buy (SB1)** Expected to appreciate and produce a total return of at least 25.0% over the next twelve months. **Outperform (MO2)** Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months. **Market Perform (MP3)** Expected to perform in line with the underlying country index. **Underperform (MU4)** Expected to underperform the underlying country index. **Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon. In transacting in any security, investors should be aware that other securities in the Raymond James research coverage universe might carry a higher or lower rating. Investors should feel free to contact their Financial Advisor to discuss the merits of other available investments.

### Raymond James European Equities rating definitions

**Strong Buy (1)** Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months. **Outperform (2)** Expected to appreciate and outperform the Stoxx 600 over the next 12 months. **Market Perform (3)** Expected to perform generally in line with the Stoxx 600 over the next 12 months. **Underperform (4)** Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.

### Suitability Categories (SR)

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

**Total Return (TR)** Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

**Growth (G)** Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

**Aggressive Growth (AG)** Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

**High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

**Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

## Rating Distributions

	Coverage Universe Rating Distribution			Investment Banking Distribution		
	RJL	RJA	RJ LatAm	RJL	RJA	RJ LatAm
<b>Strong Buy and Outperform (Buy)</b>	73%	58%	41%	51%	14%	26%
<b>Market Perform (Hold)</b>	26%	36%	53%	25%	5%	3%
<b>Underperform (Sell)</b>	1%	6%	6%	33%	6%	0%

## Raymond James Relationship Disclosures

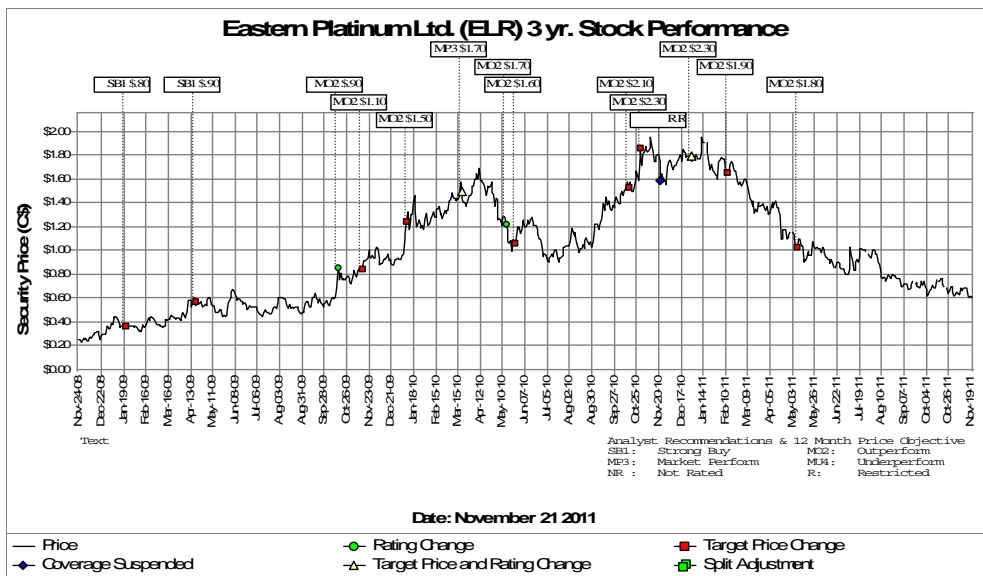
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Company Name	Disclosure
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Eastern Platinum Ltd.	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to Eastern Platinum Ltd.. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to Eastern Platinum Ltd.. Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Eastern Platinum Ltd..
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## Stock Charts, Target Prices, and Valuation Methodologies

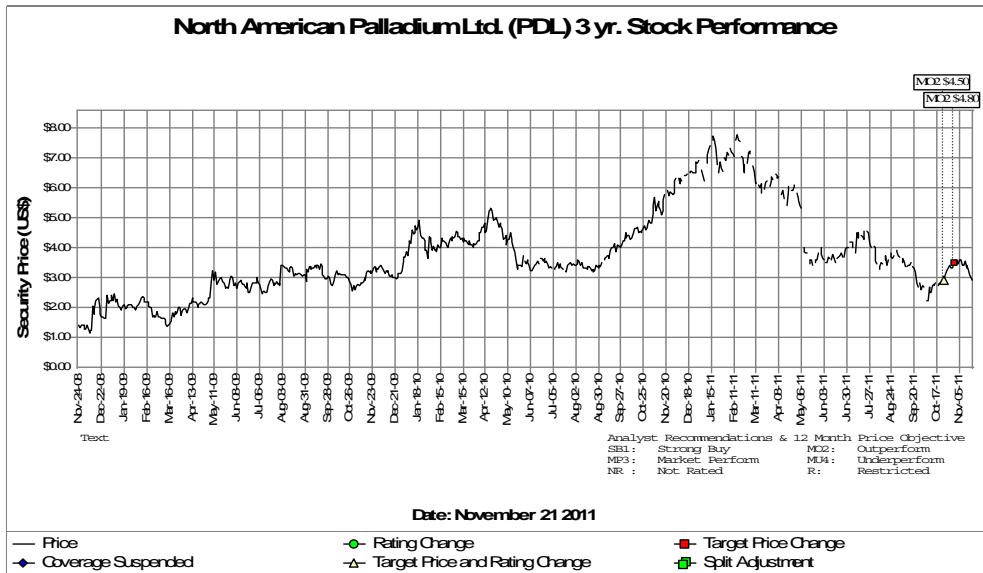
**Valuation Methodology:** The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

**Target Prices:** The information below indicates target price and rating changes for the subject companies included in this research.



Update Date	Closing Price	Target Price	Rating
May-06-11	1.03	1.80	2
Feb-11-11	1.65	1.90	2
Dec-30-10	1.79	2.30	2
Nov-23-10	1.59	R	R
Oct-29-10	1.86	2.30	2
Oct-14-10	1.53	2.10	2
May-25-10	1.06	1.60	2
May-13-10	1.22	1.70	2
Mar-18-10	1.50	1.70	3
Jan-08-10	1.24	1.50	2
Nov-13-09	0.84	1.10	2
Oct-14-09	0.86	0.90	2
Apr-17-09	0.57	0.90	1
Jan-21-09	0.37	0.80	1

**Valuation Methodology:** We value Eastern Platinum Ltd. on a comparative basis by applying a blended average of historic P/NAV, P/CF and \$/lb multiples to our company NAVPS estimate, future cash flow projection and current resources tally, respectively.



Update Date	Closing Price	Target Price	Rating
Nov-02-11	3.49	4.80	2
Oct-24-11	2.91	4.50	2

**Valuation Methodology:** We value North American Palladium Ltd. on a comparative basis by applying a blended average of historic P/NAV, P/CF and \$/lb multiples to our company NAVPS estimate, future cash flow projection and current resources tally, respectively.

### Risk Factors

**General Risk Factors:** Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation.

**Risks - Eastern Platinum Ltd.**

i) A decline in the price of gold affects the equity resource market independent of commodity; as such, Eastern Platinum may be at risk of not being able to fund future development if gold prices decline; ii) political and permitting risks in South Africa; iii) continued escalation of mining-related capital costs may reduce profitability; iv) strength of the Rand could compromise earnings of platinum producers in South Africa, which could slow further developments of platinum projects; v) Black Economic Empowerment (BEE) regulations, promulgated in May 2004, are still in their infancy and are subject to refinements and/or modifications.

**Risks - North American Palladium Ltd.**

i) A decline in the price of gold affects the equity resource market independent of commodity; as such, PDL may be at risk of not being able to fund future development if gold prices decline; ii) similarly, a decline in the price of PGMs, e.g. on a broad economic slowdown, increase in Russian/South African supply, etc., could erode profitability; iii) mine plans, while generally reliable and composed by reputable firms, are based on geophysical surveys, drilling, and other remotely-derived data; as such, grades and geological complexity actually encountered during mining may differ from expectations; iv) continued escalation of mining-related capital costs may reduce margins; v) strength of the Canadian dollar could compromise earnings of metals producers in Canada, which could slow project development; vi) our valuation is in part based on the composition and structure of current management; departure of key member(s) could have an adverse effect on the company's outlook.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available for Raymond James at [rjcapitalmarkets.com/SearchForDisclosures\\_main.asp](http://rjcapitalmarkets.com/SearchForDisclosures_main.asp) and for Raymond James Limited at [www.raymondjames.ca/researchdisclosures](http://www.raymondjames.ca/researchdisclosures).

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