

## Emerita Resources Corp.

EMO-TSX.V: \$3.21

Rating: Speculative Buy

Target: \$5.00 (was \$4.50)

### Emerita Resource Corp. (EMO-TSX.V)

| Stock Data                      |                  |
|---------------------------------|------------------|
| Previous Close (C\$)            | \$3.21           |
| 52-Week High-Low                | \$4.14 / \$0.145 |
| Avg. Daily Volume (3M)          | 1,362,196        |
| Basic SO (MM)                   | 178              |
| Fully Diluted SO (MM)           | 232              |
| Market Cap. (C\$ MM)            | \$571            |
| Cash (C\$ MM)                   | \$27             |
| ITM Options & Warrants (C\$ MM) | \$34             |
| Debt (C\$ MM)                   | \$0              |
| Enterprise Value (C\$ MM)       | \$544            |

### Company Information

|                  |  |
|------------------|--|
| Projects         | IBW (100%) / Aznalcollar (ongoing legal dispute) |
| Project Location | Iberian Pyrite Belt, Spain                       |

### Clarus Estimates

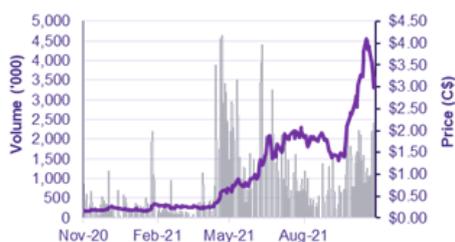
|  |        |
|--|--------|
| Implied return to target price             | 56%    |
| Clarus Est. Resources (MM lbs ZnEq)        | 16,005 |
| EV/lb Valuation (C\$/lb ZnEq)              | \$0.04 |
| Combined LOM Production (MM lbs ZnEq/year) | 576    |
| LOM Cash Costs (co-product), US\$/lb ZnEq  | \$0.56 |
| P/NAV                                      | 0.32x  |

### Management

|           |                        |
|-----------|------------------------|
| CEO       | David Gower            |
| President | Joaquin Merino-Marquez |

### Shareholders (source: Refinitiv Eikon)

|                       |       |
|-----------------------|-------|
| Eric Sprott           | 11.2% |
| Palos Management Inc. | 0.3%  |
| Management & Insiders | 6.6%  |



### Company

Emerita currently owns 100% of the IBW project on the Spanish side of the Iberian Pyrite Belt (IPB). The project has been drilled extensively (~25,000 m) by credible operators such as Phelps Dodge and Rio Tinto in 1970s and 1980s. This resulted in a 34.8 Mt historic resource with a high grade subset of 12 Mt at 12.9% ZnEq. Emerita will be focusing on validating and growing this high grade portion at IBW while also exploring for new targets on the property. The Company is also in the process of acquiring the past-producing Aznalcollar project that is also located in Spain and in the IPB. Aznalcollar public tender is currently the subject of an ongoing legal dispute in the Spanish courts. We believe a final resolution is in sight and court proceedings to date are pointing to the potential for a favourable outcome for EMO.

## Encouraging Step-out Drilling at Infanta; Accelerating Exploration Program at IBW

November 16, 2021

Emerita is in the process of contracting 3 additional DD rigs that are expected to be mobilized at the IBW project in the next two weeks. This will bring the total rig count to 5 (currently 2), significantly accelerating the planned drill program.

Initially the rigs will be deployed at Infanta. Once the IBW permits are granted (expect in the coming weeks), two rigs will be moved to commence the drill program at Romanera (34 Mt at ~7% ZnEq historic resource). As a reminder, some of the deeper intercepts (~300 – 350 m depth) from historic drilling at Romanera included **20 m at 13.4% ZnEq; 24 m at 10.5% ZnEq**. We expect similarly exciting, wide & high grade intercepts from EMO's drill program at Romanera over the coming months.

Management also announced additional depth extension step out drilling results from 3 holes (#17, 21 & 23) at Infanta that are demonstrating strong depth potential:

- Significant intercepts included:
  - Hole #17: 11.3 m at 10.2% ZnEq, incl. 2.1 m at 30.2% ZnEq from ~100 m depth – North Block;
  - Hole #23: 5.1 m at 20.7% ZnEq from ~75 m depth – North Block;
  - Hole #21: 5.5 m at 12.4% ZnEq from ~150 m depth – South Block.
- As we discussed in our last note, the mineralization is vertically faulted. This has resulted in two zones – South Block (starts at surface and down to ~150 m depth) and North Block that starts at 50 – 100 m from surface and likely continues much deeper (>400 m depth based on TEM survey).
- Importantly, the historic resource was hosted completely in the South Block and only tested to ~120 m depth while the previous operators (incl. Phelps Dodge) never tested the North Block mineralization due to the limits of the historic exploration license.
- The three step-out holes are indicating continuity of mineralization at depth (~70 – 100 m deep) over a 300 m strike length.
- Both the South Block & North Block continue along strike to the west and east. One of the strongest TEM conductors extend at least 300 m west of the historic resource boundary while mineralization also continues 400 m east where a small historical mining excavation is located.
- Deeper intercepts from the South Block are relatively lower grade as drilling gets closer to the fault. Management believes this is likely due to the structural compressional effects of the fault that have resulted in less massive-sulphide and more stringer & semi-massive mineralization around the fault.

- The depth extent and lateral continuity of the North Block mineralization is currently being tested by holes #24 (at depth), #25 & #27 to the east. The western strike and depth extension will be tested post the hunting season ending November 15.

Geophysical survey (TEM) is also expected to re-commence after November 15.

**CONCLUSION:** We are encouraged by the initial results from deeper drilling at Infanta that are demonstrating depth potential while also helping improve management's understanding of the structural controls for better drill targeting. The historic resource was completely hosted in the South Block mineralization while the North Block remained largely untested. Emerita's drill program is demonstrating good grades and widths from the North Block. We believe the North Block mineralization will likely expand both along strike (currently ~300 m) as well as to depth, well beyond the ~100 m tested to date, as suggested by the TEM surveys indicating conductors beyond 400 m depth.

The Phase 1 Infanta drill program validated the geologic model and the historic resource (0.8Mt at 26.5% ZnEq) that was defined over ~600 m strike and tested down to a shallow depth of 120 m. We believe the step-out drilling, geophysics and mapping is indicating strong potential of the mineralization continuing well beyond the historic resource footprint with potential to more than double the strike length and triple the depth extent. We are currently modelling only ~2.5 Mt at ~26.5% ZnEq (~3x historic resource) in our valuation model and see potential for significant upside beyond our estimate (up to >6x – 9x historic resource), drilling dependent.

In addition, we expect the drilling at Romanera to commence in short order, driving further news flow with an accelerated drill program as the rig count increases from 2 to 5. Beyond this, we also expect the Administrative Court in Spain to announce a decision on the Aznalcollar public tender in favour of EMO. Overall, we expect lots of news flow and re-rating catalysts in the near-term.

**TARGET INCREASED ON PRICE DECK REVISION:** We have revised our Price Deck (long-term Zn: US\$1.30/lb vs \$1.20/lb prior; Ag: US\$23/oz vs \$21/oz prior; Au: US\$1,725/oz vs \$1,600/oz prior), refer Clarus research note "Commodities Price Deck Update" dated November 16, 2021. The revised commodity prices have increased our estimated asset NPV5% by ~20% to ~C\$1.48 Bn (from ~C\$1.23 Bn). We maintain our valuation methodology of 0.6x combined NPV5% for 100% of IBW and 50% of Aznalcollar. ***The commodity price revisions result in our increased target price of \$5.00 per share*** (was \$4.50/share). We highlight that if Emerita is awarded the Aznalcollar project, our target price will increase to \$6.90/share.

**RECOMMENDATION:** Emerita offers a rare combination of significantly de-risked, world-class polymetallic projects and excellent infrastructure. Its assets are located in the Spanish side of the Iberian Pyrite Belt (IPB), which is one of the largest VMS mining camps globally with numerous majors currently operating in the region. We expect the excellent high-grade (~14% ZnEq) resource growth potential at the 100% owned IBW project to drive significant value creation and M&A appeal. We believe the big prize for EMO will be the awarding of the world-class, past-producing Aznalcollar mine that is the subject of an ongoing criminal legal dispute. As a past-producing mine, Aznalcollar is significantly de-risked and can be swiftly advanced to production in the next five years in a high-grade (~12.6% ZnEq) underground mining scenario. We expect the two assets to produce at a combined rate of 550 – 600MM lbs ZnEq/year at the lowest quartile costs, generating +US\$300 MM/year in FCF.

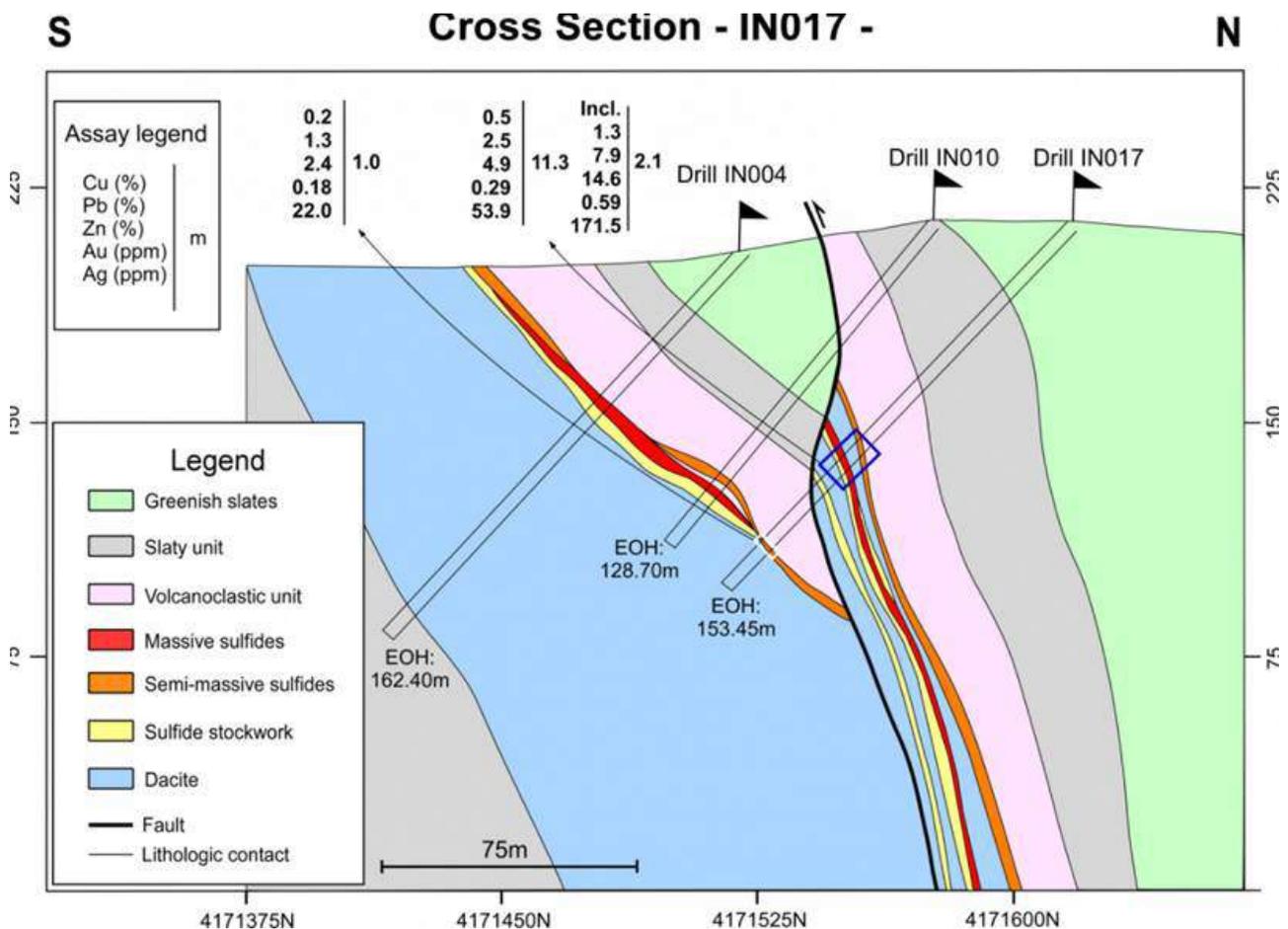
Under our estimates (Clarus 'Base Case'), EMO is trading at C\$0.04/lb ZnEq and 0.32x P/NAV, a discount to the Select Peer Group average of C\$0.06/lb and 0.50x, respectively. We see parallels with

Adriatic Metals (ATD-ASX; NR) that is advancing its brownfield Vares project, a past producing mine in Bosnia, towards development and is trading at a premium valuation of C\$0.19/lb ZnEq and 0.64x P/NAV and expect similarly high valuation multiples to be afforded to EMO as it de-risks its assets. We maintain our **SPECULATIVE BUY** rating at our new target price of **\$5.00** per share (was \$4.50/share) that is based on a 0.6x combined NPV5% for 100% of IBW and 50% of Aznalcollar.

## Milestones

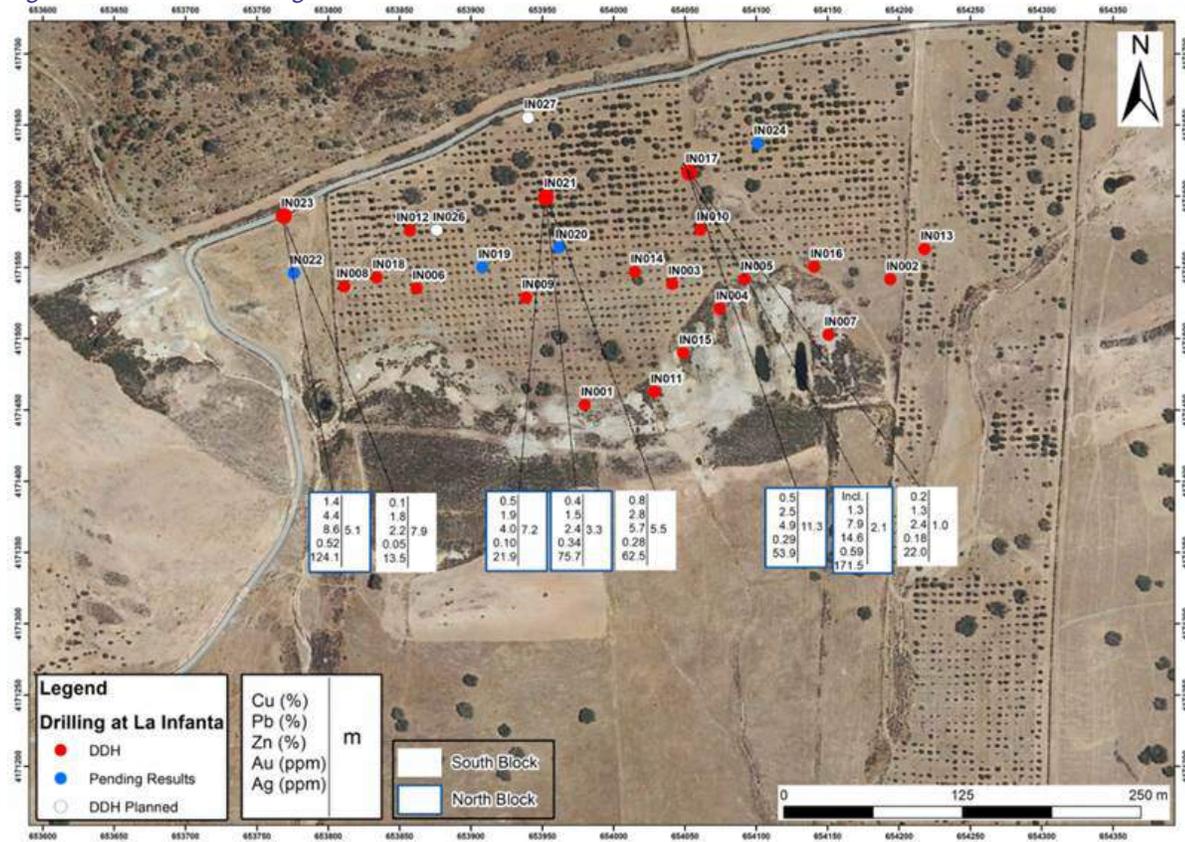
1. Aznalcollar resolution – Year-End 2021 (Clarus expectation);
2. Drill results from drill program at La Infanta – ongoing;
3. Environmental approval (AAU) for drilling at Romanera & El Cura – Q4/21;
4. Commencement of drilling at Romanera (~10,000 m) – Q4/21;
5. IBW Resource Update - H1/22.

Figure 1: La Infanta Drilling – Hole #17 Cross Section Intersecting North Block & South Block Mineralizations



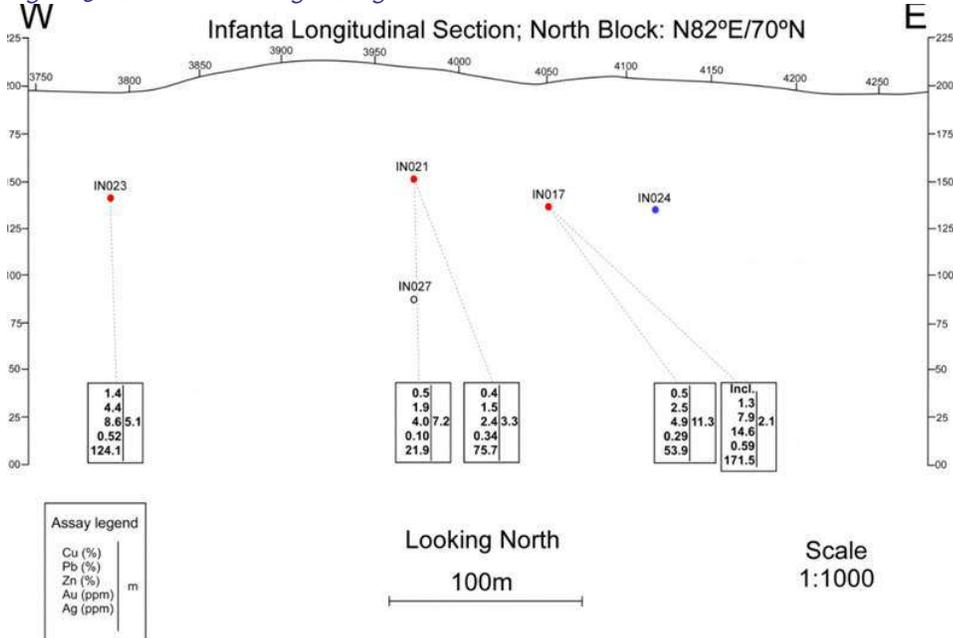
Source: Company Reports

Figure 2: La Infanta Drilling – Plan View



Source: Company Reports

Figure 3: La Infanta Drilling – Longitudinal Section



Source: Company Reports

Figure 4: EMO Comps

| Zn-Polymetallic Explorers / Developers                                 |                  |                         |            |                   |              |                  |              |                       |                    |                     |              |
|--|------------------|-------------------------|------------|-------------------|--------------|------------------|--------------|-----------------------|--------------------|---------------------|--------------|
| Company  | Ticker           | Price Per Share (Local) | S/O (MM)   | Mkt. Cap. (C\$MM) | EV (C\$MM)   | Project Location | Grade ZnEq % | Zn % of ZnEq Resource | Attri. ZnEq MM lbs | EV/lb ZnEq (C\$/lb) | P/NAV        |
| Adriatic Metals PLC  | ADT-ASX          | 2.85                    | 264        | \$691             | \$676        | Bosnia           | 13.2%        | 31%                   | 3,486              | \$0.19              | 0.64x        |
| Arizona Metals Corp (1)  | AMC-TSX.V        | 5.28                    | 99         | \$521             | \$497        | Arizona, US      | 14.4%        | 21%                   | 8,042              | \$0.06              | 0.38x        |
| Ascendant Resources Inc  | ASND-TSX         | 0.25                    | 110        | \$27              | \$27         | Portugal         | 5.2%         | 30%                   | 2,430              | \$0.01              | 0.46x        |
| Foran Mining Corp  | FOM-TSX.V        | 2.77                    | 182        | \$503             | \$488        | Sask.            | 7.2%         | 37%                   | 5,419              | \$0.09              | 0.98x        |
| Fireweed Zinc Ltd  | FWZ-TSX.V        | 0.74                    | 68         | \$51              | \$45         | Yukon            | 9.4%         | 64%                   | 10,450             | \$0.004             | 0.34x        |
| Group Eleven Resources Corp  | ZNG-TSX.V        | 0.13                    | 137        | \$17              | \$15         | Ireland          | 9.7%         | 84%                   | 1,531              | \$0.01              | NA           |
| Kutcho Copper Corp   | KC-TSX.V         | 1.00                    | 99         | \$99              | \$119        | BC               | 7.4%         | 29%                   | 5,212              | \$0.02              | 0.46x        |
| Norzinc Ltd  | NZC-TSX          | 0.06                    | 685        | \$38              | \$36         | NWT              | 20.8%        | 50%                   | 7,222              | \$0.01              | 0.16x        |
| Osisko Metals Inc  | OM-TSX.V         | 0.42                    | 191        | \$79              | \$72         | NWT              | 6.4%         | 75%                   | 7,153              | \$0.01              | 0.20x        |
| Pan Global Resources Inc   | PGZ-TSX.V        | 0.62                    | 194        | \$120             | \$103        | Spain            | NA           | NA                    | NA                 | NA                  | NA           |
| Solitario Zinc Corp  | SLR-TSX          | 0.66                    | 59         | \$39              | \$32         | Peru             | 11.1%        | 88%                   | 1,273              | \$0.02              | NA           |
| Tinka Resources Ltd  | TK-TSX.V         | 0.18                    | 341        | \$61              | \$56         | Peru             | 6.4%         | 92%                   | 8,015              | \$0.01              | 0.22x        |
| Wolfdan Resources Corp   | WLF-TSX.V        | 0.20                    | 153        | \$31              | \$25         | Maine, US        | 19.8%        | 48%                   | 1,956              | \$0.01              | 0.39x        |
| ZincX Resources Corp   | ZNX-TSX.V        | 0.16                    | 178        | \$28              | \$25         | BC               | 9.6%         | 83%                   | 6,400              | \$0.004             | NA           |
| Group Average  |                  |                         |            | \$165             | \$158        |                  | 10.6%        | 56%                   | 5,276              | \$0.04              | 0.42x        |
| <b>* Select Peer Group Average</b>                                     |                  |                         |            | <b>\$285</b>      | <b>\$272</b> |                  | <b>9.7%</b>  | <b>55%</b>            | <b>6,163</b>       | <b>\$0.06</b>       | <b>0.50x</b> |
| <b>Emerita Resources Corp.</b><br><i>(Clarus 'Base Case' Resource)</i> | <b>EMO-TSX.V</b> | <b>3.21</b>             | <b>232</b> | <b>\$746</b>      | <b>\$685</b> | <b>Spain</b>     | <b>12.7%</b> | <b>50%</b>            | <b>16,005</b>      | <b>\$0.04</b>       | <b>0.32x</b> |

\* Select Peer Group is based on comparable Zn contribution to global resource, favourable location for development and favourable permitting environment

(1) We cover AMC-TSX.V with a SPECULATIVE BUY rating and a target price of \$10.00 per share

Note: EMO market cap and EV based on FD shares & value of ITM options & warrants

Source: Refinitiv Eikon, Clarus Securities Inc.

**Price Target Calculator:** Our 12-month target price is based on a 0.6x combined NPV5% of IBW and 50% of Aznalcollar. We also account for in-situ valuation for ~17 Mt at ~16% ZnEq valued at C\$0.07/lb ZnEq at IBW & Aznalcollar (50%) to account for the estimated resource that is not included in our mine model. In addition, we account for corporate adjustments, including our long-term debt assumption and ITM options and warrants.

**Key Risks to Target Price:** Please refer to the risks disclosed in the initiating report dated July 23, 2021.

## Emerita Resources Corporation (EMO-TSX.V), SPECULATIVE BUY, Target: C\$5.00

|                 |                 |                |        |                     |       |
|-----------------|-----------------|----------------|--------|---------------------|-------|
| Rating          | SPECULATIVE BUY | Target Price   | \$5.00 | Basic Shares O/S    | 177.8 |
| 12-Month Return | 56%             | Previous Close | \$3.21 | Market Cap., C\$ MM | \$571 |
|                 |                 |                |        | EV, C\$ MM          | \$544 |

CAD MM except per share data, unless otherwise noted

| CAPITAL STRUCTURE               |  |        | Strike Price | Shares     | FINANCIAL SUMMARY      |         |         |         |         |         |
|---------------------------------|--|--------|--------------|------------|------------------------|---------|---------|---------|---------|---------|
|                                 |  |        | \$/share     | (MM)       | Fiscal Year            | 2025E   | 2026E   | 2027E   | 2028E   | 2029E   |
| <b>Basic Shares Outstanding</b> |  |        |              | <b>178</b> | Copper Price (US\$/lb) | \$3.75  | \$3.75  | \$3.75  | \$3.75  | \$3.75  |
| ITM Warrants Outstanding        |  | \$0.52 |              | 37         | Zinc Price (US\$/lb)   | \$1.30  | \$1.30  | \$1.30  | \$1.30  | \$1.30  |
| ITM Options Outstanding         |  | \$0.86 |              | 17         | Gold Price (US\$/oz)   | \$1,725 | \$1,725 | \$1,725 | \$1,725 | \$1,725 |
| Assumed Equity Funding          |  |        |              | 51         | Silver Price (US\$/oz) | \$23    | \$23    | \$23    | \$23    | \$23    |
| <b>FD Shares</b>                |  |        |              | <b>283</b> |                        |         |         |         |         |         |

| NET ASSET VALUE (C\$) |               |        |                |        |           |
|-----------------------|---------------|--------|----------------|--------|-----------|
|                       | Discount rate | C\$ MM | Ownership Risk | C\$ MM | C\$/share |

|                                       |      |         |              |                |               |
|---------------------------------------|------|---------|--------------|----------------|---------------|
| <b>Asset NAV</b>                      |      |         |              |                |               |
| Aznalcollar (100.0%), Spain           | 5.0% | \$1,372 | 50.0%        | \$686          | \$2.42        |
| IBW (100.0%), Spain                   | 5.0% | \$799   | 0.0%         | \$799          | \$2.82        |
| <b>Asset NAV Sub-Total</b>            |      |         |              | <b>\$1,485</b> | <b>\$5.24</b> |
| <b>Multiple to Development Assets</b> |      |         | <b>0.60x</b> | <b>\$891</b>   | <b>\$3.15</b> |

| In-Situ Valuation (Inventory not incl. in mine model) |             |               |       |              |               |
|---|-------------|---------------|-------|--------------|---------------|
|   | ZnEq        |               |       | C\$ MM       | C\$/share     |
| Aznalcollar   | 3,691MM lbs | @ C\$0.07 /lb | 50.0% | \$129        | \$0.46        |
| IBW   | 2,383MM lbs | @ C\$0.07 /lb | 0.0%  | \$167        | \$0.59        |
| <b>In-situ Valuation Sub-total</b>                    |             |               |       | <b>\$296</b> | <b>\$1.05</b> |

| Corporate Adjustments                  |  |  |  |                  |                |
|--|--|--|--|------------------|----------------|
| Cash                                   |  |  |  | \$27             | \$0.10         |
| Value of ITM Instruments               |  |  |  | \$34             | \$0.12         |
| Long-term Debt                         |  |  |  | -\$240           | -\$0.85        |
| Estimated Working Capital Additions    |  |  |  | \$400            | \$1.41         |
| <b>Corporate Adjustments Sub-total</b> |  |  |  | <b>\$221</b>     | <b>\$0.78</b>  |
| <b>Total Corporate NAV</b>             |  |  |  | <b>C\$/share</b> | <b>\$1,408</b> |

| Target Price |  | C\$/share | \$5.00 |
|--------------|--|-----------|--------|
| PINAV        |  |           | 0.32x  |

| PRODUCTION ESTIMATES, MM lbs ZnEq |                    |          |            |            |            |            |
|-----------------------------------|--------------------|----------|------------|------------|------------|------------|
| Fiscal Year                       |                    | 2025E    | 2026E      | 2027E      | 2028E      | 2029E      |
| Aznalcollar                       | MM lbs             | -        | 313        | 313        | 313        | 313        |
| IBW                               | MM lbs             | -        | -          | -          | -          | 263        |
| <b>Zinc Equivalent Production</b> | <b>MM lbs ZnEq</b> | <b>-</b> | <b>313</b> | <b>313</b> | <b>313</b> | <b>576</b> |

| COST ESTIMATES (US\$/oz)               |                     |          |               |               |               |               |
|--|---------------------|----------|---------------|---------------|---------------|---------------|
| Fiscal Year                            |                     | 2025E    | 2026E         | 2027E         | 2028E         | 2029E         |
| Total Cash Costs (C1), net of by-prod. | US\$/lb Zn          | -        | (\$0.09)      | (\$0.09)      | (\$0.09)      | (\$0.13)      |
| <b>Total Cash Costs (C1), co-prod.</b> | <b>US\$/lb ZnEq</b> | <b>-</b> | <b>\$0.54</b> | <b>\$0.54</b> | <b>\$0.54</b> | <b>\$0.56</b> |
| Sustaining Capex                       | US\$/lb Zn          | -        | \$0.12        | \$0.12        | \$0.12        | \$0.12        |
| AISC (net of by-products)              | US\$/lb Zn          | -        | \$0.03        | \$0.03        | \$0.03        | (\$0.01)      |
| <b>AISC (co-product)</b>               | <b>US\$/lb ZnEq</b> | <b>-</b> | <b>\$0.61</b> | <b>\$0.61</b> | <b>\$0.61</b> | <b>\$0.62</b> |

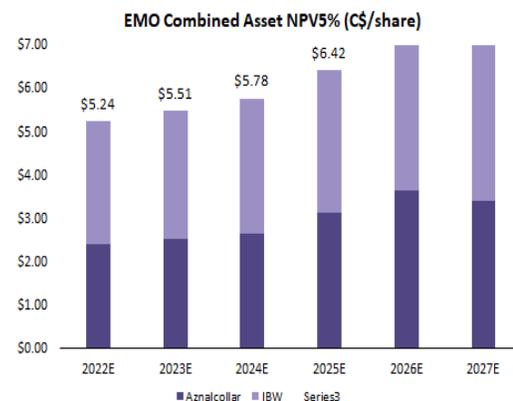
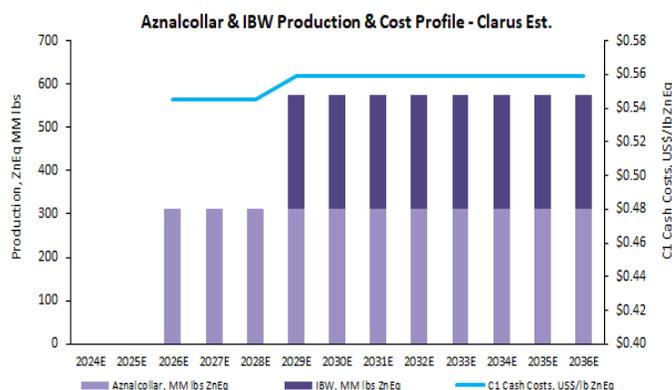
|            |        |        |        |        |        |
|------------|--------|--------|--------|--------|--------|
| EPS        | \$0.00 | \$0.55 | \$0.55 | \$0.59 | \$1.11 |
| P/EPS      | nm     | 5.9x   | 5.8x   | 5.5x   | 2.9x   |
| Target/EPS | nm     | 6.9x   | 6.8x   | 6.5x   | 3.4x   |

|             |        |        |        |        |        |
|-------------|--------|--------|--------|--------|--------|
| CFPS        | \$0.00 | \$1.06 | \$0.95 | \$0.88 | \$1.88 |
| P/CFPS      | nm     | 3.0x   | 3.4x   | 3.7x   | 1.7x   |
| Target/CFPS | nm     | 3.6x   | 4.0x   | 5.7x   | 2.7x   |

| Income Statement     |            |              |              |              |              | MM |
|----------------------|------------|--------------|--------------|--------------|--------------|----|
| Revenue              | \$0        | \$473        | \$473        | \$473        | \$868        |    |
| Operating Expenses   | \$0        | (\$198)      | (\$198)      | (\$198)      | (\$373)      |    |
| Depreciation         | \$0        | (\$50)       | (\$50)       | (\$50)       | (\$97)       |    |
| General & Adm.       | \$0        | \$0          | \$0          | \$0          | (\$1)        |    |
| Other                | \$0        | \$0          | \$0          | \$0          | \$0          |    |
| Exploration Exp.     | \$0        | \$0          | \$0          | \$0          | (\$0)        |    |
| Net Interest Expense | \$0        | (\$32)       | (\$29)       | (\$18)       | (\$7)        |    |
| Taxes Expense        | \$0        | (\$67)       | (\$68)       | (\$72)       | (\$136)      |    |
| Other                | \$0        | \$0          | \$0          | \$0          | \$0          |    |
| <b>Net Income</b>    | <b>\$0</b> | <b>\$125</b> | <b>\$127</b> | <b>\$134</b> | <b>\$253</b> |    |

| Cash Flow Statement               |         |        |         |         |         | MM |
|-----------------------------------|---------|--------|---------|---------|---------|----|
| Operating CF                      | \$0     | \$242  | \$217   | \$200   | \$431   |    |
| Repayments                        | \$0     | \$0    | (\$109) | (\$109) | (\$119) |    |
| Share Issuance                    | \$0     | \$0    | \$0     | \$0     | \$0     |    |
| Financing CF                      | \$0     | \$0    | (\$109) | (\$99)  | (\$119) |    |
| Investing CF                      | (\$200) | (\$24) | (\$174) | (\$174) | (\$42)  |    |
| Change in Cash                    | (\$200) | \$219  | (\$66)  | (\$73)  | \$269   |    |
| Free Cash Flow (bef div and fin.) | (\$200) | \$219  | \$44    | \$26    | \$389   |    |
| Free Cash Flow Yield              | -37%    | 40%    | 8%      | 5%      | 71%     |    |

| MODELLED MINEABLE INVENTORY |           |              |              |           | Mine |
|-----------------------------|-----------|--------------|--------------|-----------|------|
| Zinc Equivalent             | Mt        | % ZnEq       | MM lbs       | Life (yr) |      |
| Aznalcollar (100.0%), Spain | 23        | 11.4%        | 5,821        | 15.0      |      |
| IBW (100.0%), Spain         | 14        | 12.5%        | 3,957        | 12.0      |      |
| <b>EMO Companywide</b>      | <b>38</b> | <b>11.8%</b> | <b>9,778</b> |           |      |



Source: Clarus Securities Inc.

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**Buy:** Attractively valued and expected to appreciate significantly from the current price over the next 12-18 months.

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