CLARUS SECURITIES INC.

Jamie Spratt, CFA
416-343-4204 | jspratt@clarussecurities.com
Varun Arora, Associate Analyst | 416-343-2779
Bhargav Bandhala, Associate | 416-343-4203

Mako Mining Corp.

MKO-TSX.V: $0.17
Rating: Speculative Buy
Target: $0.80

Estimates

	2018E	2019E	2020E	2021E
Gold Price (US$/oz)	$ 1,287	$1,300	$1,300	$1,300
AuEq Production (k oz)	6	24	27	39
Revenue (MM)	$ 7	$ 31	$ 35	$ 50
Operating Cash Flow (MM)	$ 2	$ 14	$ 15	$ 22
Net Income (MM)	$ 1	$ 13	$ 11	$ 17
Total Cash Costs ($/oz)	-	$ 394	$ 345	$ 364
AISC ($/oz)	$ -	$ 478	$ 527	$ 513
EPS	$ -	$ 0.04	$ 0.04	$ 0.06
CFPS	$ 0.01	$ 0.04	$ 0.05	$ 0.07

Valuation

P/E	N/A	3.1x	3.5x	2.3x
P/CF	N/A	2.9x	2.6x	1.8x

Stock Data

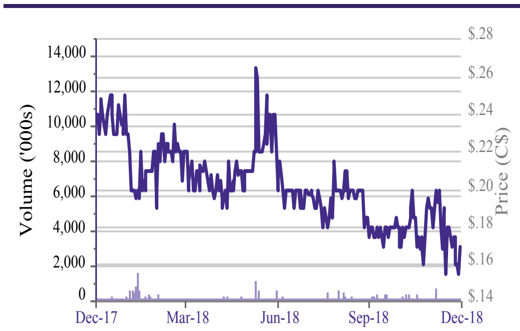
Previous Close (C$)	$ 0.17
Potential Return	NA
52-Week High-Low	$0.29 / $0.15
Avg. Daily Volume (3m)	
Basic SO (MM)	283
Fully Diluted SO (MM)	283
Float (MM)	273
Market Cap. (C$MM)	$ 48
Cash (C$MM)	$ 5
Debt (C$MM)	$ -
Enterprise Value (C$MM)	$ 48

Shareholders

Wexford Capital LP	37%
Management & Employees	23%

Company Information

Flagship Project	San Albino
Project Location	Nicaragua
Global Resources (MM oz AuEq.)	1.0
AMC/oz Valuation (US$)	$ 52



Source: FactSet

Simple, Low Capex San Albino Project Fundable in Current Environment

December 10, 2018

Refreshing our thesis on Mako Mining (formerly Golden Reign):

- With equity capital scarce in the current market environment, low capex, high IRR development projects such as MKO's 1MMoz San Albino project have a significant advantage. We believe that MKO is well positioned for a potentially rapid producer rerating with the San Albino project on track for a production start in early 2020 and an estimated annual FCF of US$15-$20 MM. In our view, exploration in the San Albino district has a 3.0 – 5.0MM oz potential.
- The transaction with Marlin Gold eliminates the punitive gold stream and replaces it with a 3% royalty, significantly increasing leverage to the project for MKO shareholders. Further, Marlin's producing La Trinidad mine in Mexico provides an incremental US$12 MM in free cash flow in 2019 to potentially fund the build and exploration at San Albino.
- Overall, the transaction is neutral to our valuation. We continue to view San Albino as an attractive project with its low initial capex, high margin production and compelling exploration upside. We maintain our **SPECULATIVE BUY** rating and our target price of **$0.80** per share.

HIGH FREE CASH FLOW, LOW RISK PROJECT: In our view, the compelling opportunity for MKO continues to be the development and exploration of the high grade, open pit San Albino project in Nicaragua. The San Albino project has solid infrastructure, including paved road access, water and suppliers in a mining friendly jurisdiction, supporting our modelled relatively low project capex of ~US$40 MM, including working capital. We estimate the project will generate a cumulative ~US$165 MM in FCF over a 9-year mine life. The execution risk, in our opinion, is lessened by the small scale of the project and management's depth of experience. Nicaragua remains a source of risk, however, recent updates show that operating environment is improving, and blockades have been lifted. We further note that San Albino is ~300km from Managua, the epicentre of the recent protests.

COMPELLING EXPLORATION UPSIDE: San Albino currently has >960k oz at ~8.0 g/t in global resource but we believe this only scratches the surface of the resource potential. We see significant exploration upside with the current ~1.0MM oz (grading ~8.0 g/t) resource defined over 1 km along strike and covering only 2% of the 138^2 km land package. Trenching and drilling results over a strike length of 3km to the south in the Las Conchitas area show potential to delineate additional high grade, open pittable resource, as highlighted in the recent drilling results. Beyond this immediate upside, historic workings, mapping and sampling have identified 100+ showings across ~20 targets along the 23km Corona de Oro Gold Belt. An estimated discovery cost of US$24/oz bodes well for MKO's potential to convert these targets to mineable ounces. Overall, we see a conceptual potential of 3.0 – 5.0MM oz on the land package.

LAS CONCHITAS EXPLORATION CONFIRMING FURTHER HIGH GRADE RESOURCE UPSIDE: The latest drilling and trenching results at Las Conchitas have demonstrated that the high grade veins at San Albino continue to the south over a strike length of ~3 km and covers an area approx. three times the foot print of San Albino that contains ~1.0MM oz at ~8.0 g/t. Trenching and drilling from 49 holes (2,192 m) has identified up to 9 zones of near surface quartz veining that we believe should be amenable to open pit mining at high grades. Recent significant drilling and trenching results (see Nov. 28 & Dec. 5 press releases) include: Cruz Grande zone – 5.65 m of 23.63 g/t Au (vertical hole), 4.15 m of 11.31 g/t Au (vertical hole); Mina Bonanza zone – 2.3 m of 10.17 g/t Au (vertical hole), 1.8 m of 17.61 g/t Au (vertical hole). **Overall, we see potential from Las Conchitas to double or triple the current resource profile.**

MARLIN TRANSACTION ELIMINATES STREAM AND ADDS FREE CASH FLOW: In our view the benefits of the Marlin-Golden Reign combination are (1) the elimination of a formerly punitive (40% of annual production initially) gold stream and its replacement with a 3% royalty (2) the addition of an estimated US$12 MM in free cash flow from La Trinidad in 2019 and (3) the ability to open up the full suite of funding options including project debt, gold loans, streams and/or equity to finance the construction of the project. Overall, the transaction is neutral to our valuation as the accretion from reduced stream and value of La Trinidad that increases our corporate NAV from US$143 MM to US$175 MM is neutral on a per share basis after the issuance of 109MM shares.

LA TRINIDAD PROVIDES CASH FOR ADVANCING SAN ALBINO: La Trinidad is a fully permitted gold heap leach operation in Sinaloa, Mexico. We see the major source of value at the project to be the ~43k oz of high grade ore which can be mined and processed at an estimated AISC of <US$500/oz. Marlin declared commercial production at the asset in November 2014 and since then has shipped >90k oz up to Q2/18. La Trinidad is currently processing surface stockpiles as the Taunus pit is flooded as a result of hurricane Willa in October 2018. There is no significant damage to the plant and we estimate a capex of <US$1.0 MM will be paid for through an insurance claim for dewatering and restarting La Trinidad. Our La Trinidad mine model incorporates production of 24k oz at <US$500/oz AISC in 2019.

VALUATION ADJUSTMENTS: We have updated our model to include the La Trinidad mine in our valuation and reflected the issuance of ~109MM shares for a post-transaction share count of ~283MM. Our mine model for La Trinidad accounts for heap leach processing plant with a ~1.0Mtpa throughput rate, driving 30k oz in production at ~US$500/oz mine-site AISC in 2019, which we assume to be the last year of operation for the asset. In our San Albino mine model, the 20% gold stream on San Albino to Sail Fish has been replaced with a 3% NSR. We continue to estimate a fully ramped up production rate of 500 tpd for ~40k oz/year at US$637/oz AISC over a 10 year mine life. Our corporate NAV is US$175 MM or US$0.56/share under these revised assumptions (prior US$143 MM or US$0.58/share). We maintain our target price of $0.80 per share.

CONCLUSION & RECOMMENDATION: We believe that low capex, high IRR projects such as MKO's San Albino (see Figure 6 & 7) have a significant advantage even in the current market context. Given the relatively low dollar capex and the high margins, we believe that a full suite of funding options will be available and that the project should be fundable even in the current challenging equity environment. The small size, 500 tpd plant can be constructed in a relatively short time frame (12 – 15 months) with our estimated commencement of production from the project as early as 2020 and will be scalable.

We estimate that the project will produce ~40k oz/year at <US$650/oz AISC, among the lowest cost projects in our coverage universe. In our view, the project has exciting exploration upside with the potential to take ultimate resource toward 5.0MM oz of high grade resource. Over time we believe this resource growth can ultimately be monetized with a low capex scaling up of production beyond 100k oz+ per year. In our view, the high grade and small scale of the project provides major leverage to expansion of the production (see scenario analysis in Figure 1). We believe that MKO has the potential to follow a similar path to Rio Alto that built its La Arena project for an initial capex of ~US$55 MM and internally funded the expansion of its initial production profile of ~50k oz/year at 10,000 tpd to 200+k oz/year at 36,000 tpd.

Figure 1: San Albino Project Upside

San Albino Upside Scenario

		Base Case (Target Price)	Optimistic	Blue Sky
Throughput	**tpd**	**500**	**1,500**	**2,500**
Open Pit Mineable Inventory	MM oz	0.35	0.70	1.00
Initial Capex	US$ MM	$40	$40	$40
Expansion Capex	US$ MM	$0	$25	$80
Peak Annual Production	k oz/year	39	117	194
Annual Average Production	k oz/year	39	97	133
LOM AISC	US$/oz	$637	$616	$602
Average Annual CFO	US$ MM	$19	$43	$62
Project NAV (5%)	US$ MM	$86	$191	$258
Corporate NAVPS	US$/share	$0.56	$0.90	$1.06
Conceptual Target Price	**C$/share**	**$0.80**	**$1.20**	**$1.40**
P / NAV		0.23x	0.14x	0.12x
Fully Ramped Up P / CF		1.78x	0.80x	0.41x

Source: Clarus Securities Inc.

The stock trades at 0.23x NAV, a ~45% discount to peers trading at an average of 0.39x. Our estimated cumulative FCF from San Albino and La Trinidad of US$177 MM is more than triple the current C$47 MM market cap of the Company. We believe the stage is set for unlocking of value at a high grade, high free cash flowing asset with compelling exploration upside. We maintain our **SPECULATIVE BUY** rating and our target price of **$0.80** per share.

Figure 1: MKO Comparable Analysis

12/7/2018 Company (C$)	Price	Market Cap (MM)	EV (MM)	Total oz MM	Initial Capex US$ MM	Through-put tpd	Unfunded Capex US$ MM	P/NAV
Belo Sun Mining Corp.	$0.28	$124	$86	6.1	$298	19,444	$223	0.36x
Continental Gold Inc	$2.14	$403	$610	9.0	$495	3,000	$125	0.26x
Cardinal Resources Ltd.	$0.38	$139	$111	7.0	$414	27,000	$389	0.22x
Falco Resources Ltd.	$0.32	$65	$63	9.2	$802	16,000	$605	0.18x
Lundin Gold Inc.	$4.77	$1,017	$640	9.5	$692	3,500	$0	0.70x
Midas Gold Corp.	$0.63	$148	$141	7.4	$970	22,050	$932	0.50x
Orezone Gold Corporation	$0.54	$114	$65	5.8	$144	14,500	$109	0.33x
Rio2 Ltd.	$0.48	$49	$46	5.8	$200	80,000	$200	NA
Sabina Gold & Silver Corp.	$1.35	$357	$318	7.2	$415	3,000	$353	0.45x
Victoria Gold Corp.	$0.37	$288	$240	4.4	$370	33,700	$0	0.51x
West African Resources Ltd	$0.21	$145	$102	2.9	$185	6,000	$0	0.39x
Mean		**$259**	**$220**	**6.8**	**$453**	**20,745**	**$267**	**0.39x**
Mako Mining Corp.	**$0.17**	**$48**	**$44**	**0.9**	**$40**	**500**	**$40**	**0.23x**

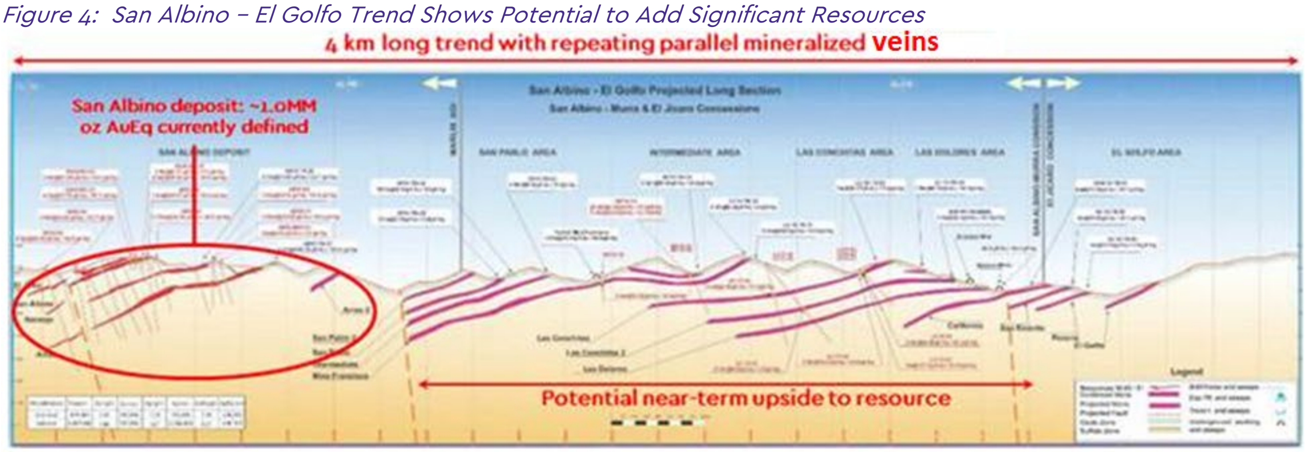
Source: Factset, Clarus Securities Inc.

Figure 2: MKO Comparable Analysis

Sources & Uses of Funds		
Sources of Funds		
Cash	US$ MM	$4
CFO from La Trinidad (Q1/19 - Q4/19)	US$ MM	$14
Assumed Debt Raise	US$ MM	$21
Assumed Equity Raise	US$ MM	$7
Total Funds Available up to Q4/19	**US$ MM**	**$45**
Uses of Funds		
San Albino Construction (Q1/19 - Q4/19)	US$ MM	$40
La Trinidad Sustaining Capex 2019E	US$ MM	$2
WC & Corporate Purposes 2019E	US$ MM	$2
Total Uses of Funds up to Q4/19	**US$ MM**	**$44**

Source: Factset, Clarus Securities Inc.

Figure 4: San Albino – El Golfo Trend Shows Potential to Add Significant Resources



Source: Company Reports

Figure 5: Clarus Modeled Assumptions

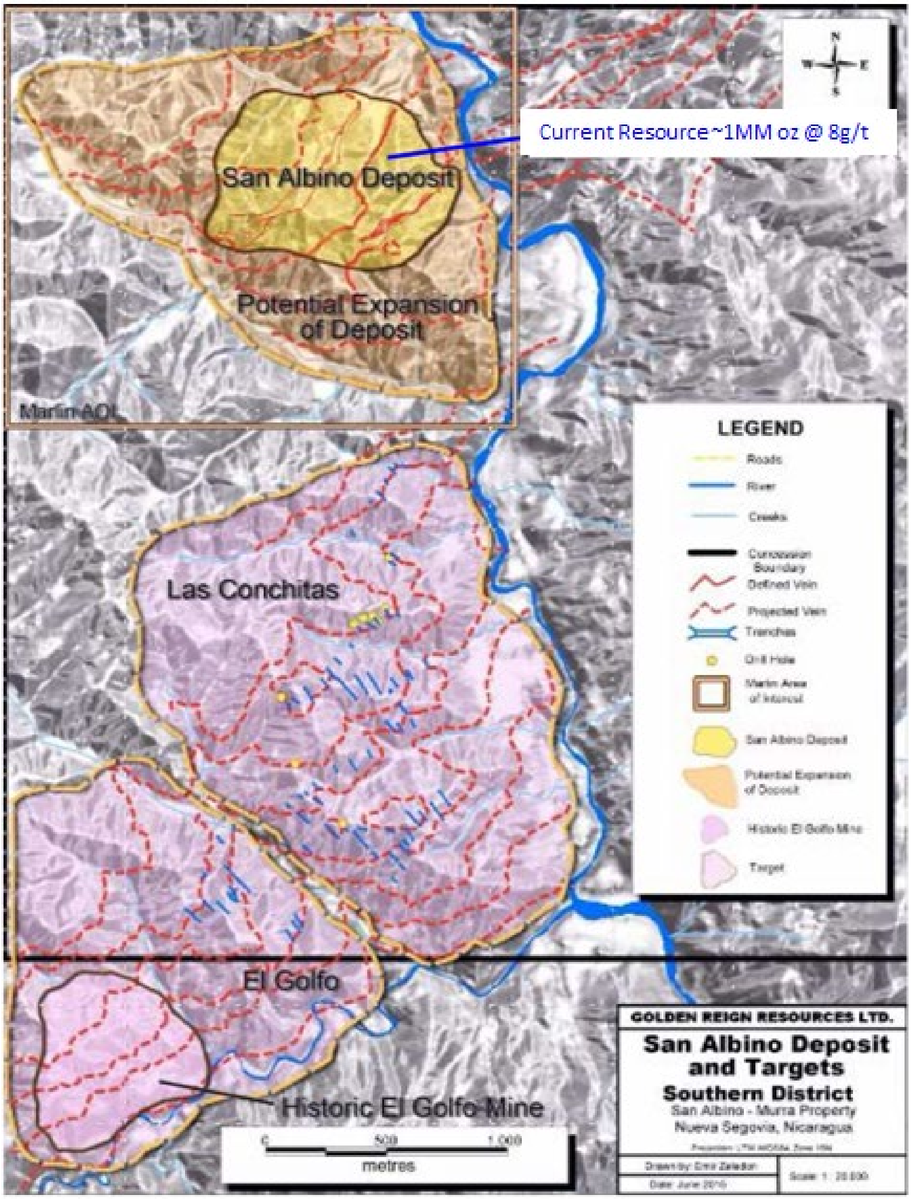
San Albino Project Modelled Assumptions - CLARUS (amounts in US$ unless stated otherwise)					
AuEq Mineable Ounces	Koz	350.0			
Life of Mine	Years	9			
Long Term Gold Price	US$/oz	$1,300			
LOM Average Production			**LOM Average Operating Costs**		
Au - Head Grade	g/t	7.00	Mining Costs	(US$/tonne material)	$57.8
Throughput	Mtpa	172	Processing Costs	(US$/tonne ore)	$36.6
Strip Ratio	-	16	G&A Costs	(US$/tonne ore)	$11.1
Au - Recovery	%	94.0%	Cash Costs	(US$/oz)	$489
AuEq - Avg. Annual Production	koz	39	AISC	(US$/oz)	$637
Net Asset Value			**LOM CAPEX**		
Project NAV (5%)	US$ MM	$86	Project Capex	(US$ MM)	$40
Project NAV (5%)	US$/share	$0.28	LOM Sustaining Capex	(US$ MM)	$24

La Trinidad Modelled Assumptions - CLARUS (amounts in US$ unless stated otherwise)					
AuEq Mineable Ounces	Koz	36.5			
Life of Mine	Years	1			
Long Term Gold Price	US$/oz	$1,300			
LOM Average Production			**LOM Average Operating Costs**		
Au - Head Grade	g/t	1.40	Mining Costs	(US$/tonne material)	$1.4
Throughput	ktpa	809	Processing Costs	(US$/tonne ore)	$6.9
Strip Ratio	-	0.9	G&A Costs	(US$/tonne ore)	$1.0
Au - Recovery	%	65.0%	Cash Costs	(US$/oz)	$361
AuEq - Avg. Annual Production	koz	24	AISC	(US$/oz)	$478
Net Asset Value			**LOM CAPEX**		
Project NAV (5%)	US$ MM	$14	Project Capex (Flooding)	(US$ MM)	$1.5
Project NAV (5%)	US$/share	$0.05	LOM Sustaining Capex	(US$ MM)	$2.0

NET ASSET VALUE	% Int.	Discount Rate		US$M	US$ /share
Project NAV Gold Assets					
San Albino	100%	5%		$86	$ 0.28
La Trinidad	100%	3%		$14	$ 0.05
Sub-Total Project NAV				**$100**	**$0.32**
Multiple to Development Assets		**1.00x**		$100	$0.32
Exploration Potential					
In-Situ Valuation		**2.0 MM oz**	**@ C$50.00/oz**	**$74**	**$0.24**
Total Project NAV				**175**	**$0.56**
Corporate Adjustments				**US$M**	**US$/share**
Total Corporate Adjustments				**$0**	**$0.00**
Total Corporate NAV		**US$/share**		**$175**	**$0.56**
Target Price		**C$/share**		**$ 231**	**$ 0.80**

Source: Clarus Securities Inc.

Figure 3: Las Conchitas & El Golfo Combined Have Approx. Three Times the Footprint of San Albino

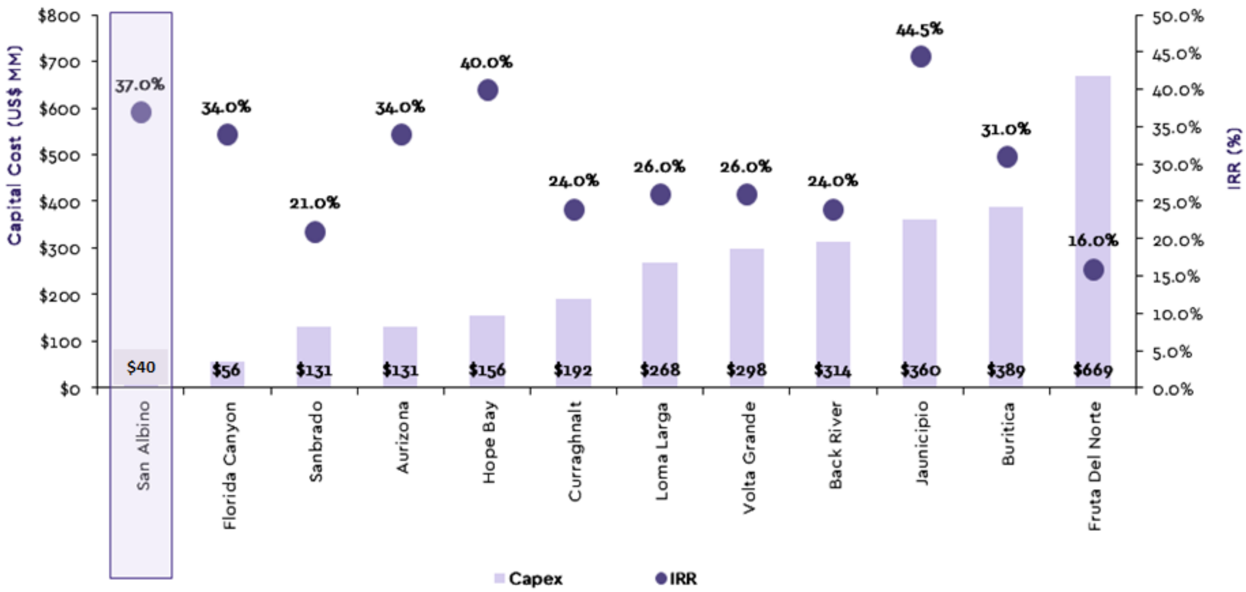


Source: Company Reports

Figure 4: Showings & Historic Workings Along Corona de Oro Gold Belt Show Blue Sky Upside

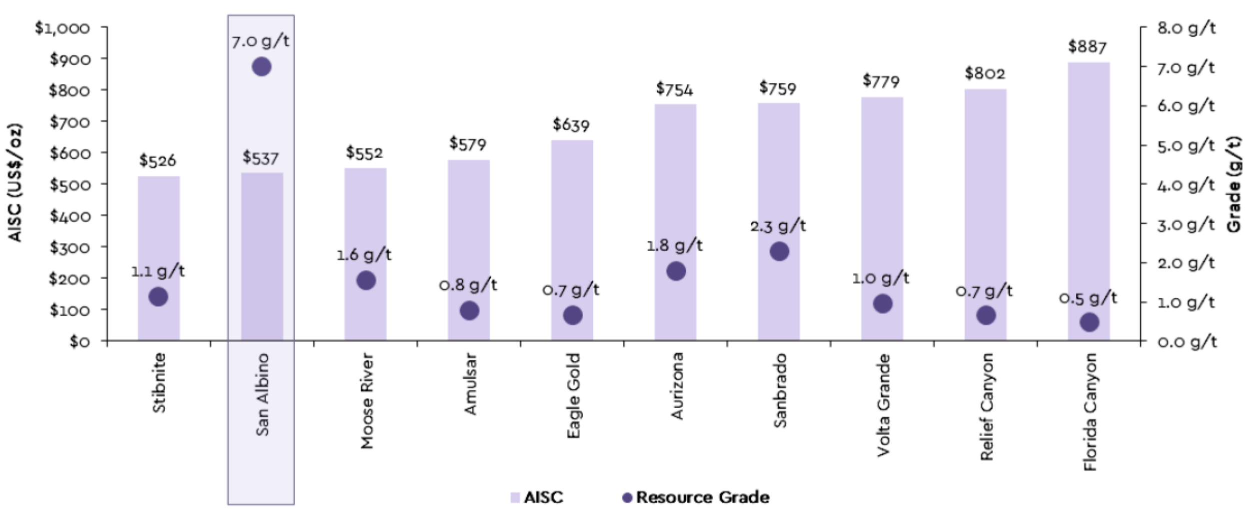
Source: Company Reports

Figure 5: San Albino has the Lowest Dollar Capital Requirements and Among the Highest IRRs



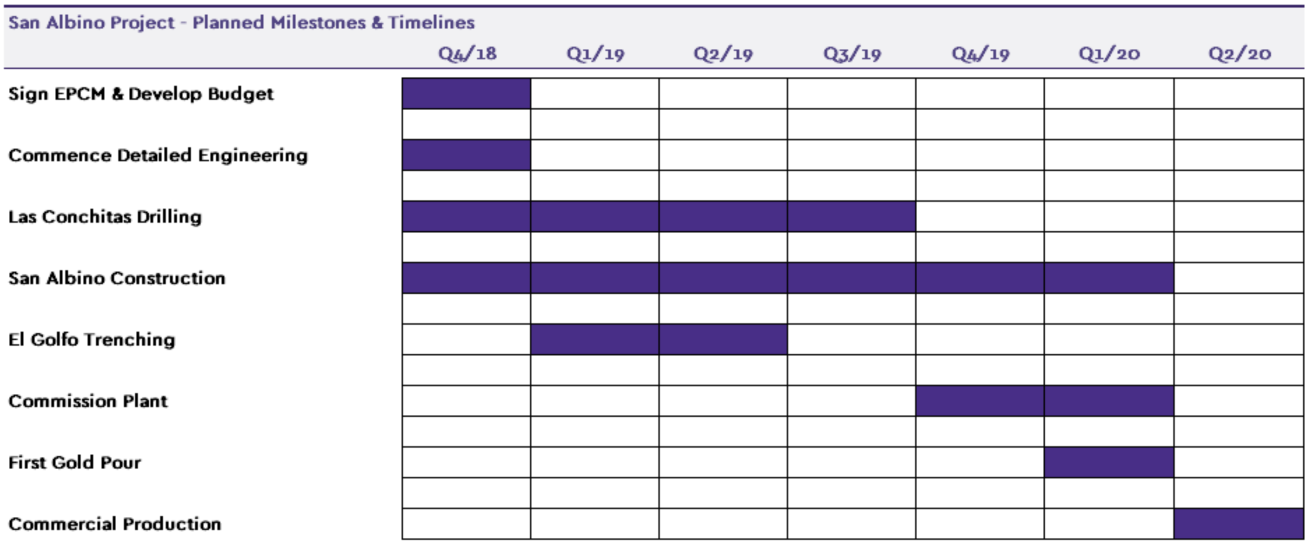
Source: Company Reports, Clarus Securities Inc.

Figure 6: Favourable Grade vs AISC Profile for San Albino Compared to Other Open Pit Projects Globally



Source: Company Reports, Clarus Securities Inc.

Figure 7: Development Timeline



Source: Company Reports, Clarus Securities Inc.

Investment Risks

Currency & Commodity Price Risk: One of the key risks facing the Company is fluctuations in currency exchange rates, gold price and uncertainty in geopolitics.

Country Risk: Nicaragua has faced significant social unrest recently. This may represent community relations, development timeline and regime change risks. We believe this is mitigated by management's depth of experience in different operating environments and the inclusive approach to community relations. We note that recent updates from the ground indicate an improved operating environment with blockades having been lifted. We also note that San Albino is located in Nueva Segovia, a remote location, >300 km from Managua which is the epicenter of the protests.

Financing Risk: There is no guarantee that debt or equity markets will allow the Company to fund the development of San Albino or further the exploration at its land package. We note that the relatively low capital requirement for San Albino and the expected cash flow from La Trinidad during 2019 reduces this risk.

Geologic Risk: While the Company had completed a PEA under a previous management, we believe the actual mine plan would differ from what was proposed in the PEA with potentially deeper open pit mining scenario at higher strip ratio. We note that the PEA has a NI 43-101 compliant resource, which forms the basis of our valuation model. Significant variance in the modelled parameters would impact our valuation. Our modelled opex and capex assumptions may differ materially from actual realized costs which would impact our valuation.

Development Risk: The Company faces typical risks associated with project development including but not limited to the risk of construction delays, long lead item delays, staffing risks, and capital cost inflation. In our view these risks are mitigated by management's depth of experience in mine building.

Permitting Risk: The Company announced on September 12, 2017 that it has received its environmental permit for the development, construction and an operation of up to a 500 tpd operation at San Albino. The Company faces permitting risk for any further expansions or additional mining to the

San Albino operation. However, this is mitigated by the fact that the initial permit was awarded and the continued strong local support for the project.

Technical Risk: Technical work completed on the San Albino project is limited to Preliminary Economic Assessment (PEA) completed in Q1 2015. The Company faces the risk of building a mine on a PEA level study which may not be as detailed as a Definitive/Bankable Feasibility Study.

Price Target Calculator: Our 12-month target price of $0.80/share is based on a 1.0x multiple to the project NAV for San Albino (5% discount rate) and La Trinidad (3% discount rate). We also account for in-situ valuation for 2.0MM oz at C$50/oz.

Key Risks to Target Price: Please refer to the risks disclosed in the initiating report dated 13/09/2017.

Mako Mining Corp. (MKO-TSX.V)

Rating	**SPECULATIVE BUY**	**Target Price**	**$0.80**	**Shares O/S (MM)**	**283**	**Market Cap. C$MM**	**$48**
Potential Return	**371%**	**Previous Close**	**$0.17**	**Float (MM)**	**185**		

All figures in US$, unless otherwise stated

CAPITAL STRUCTURE	Strike Price C$/share	Maturity Date	Shares MM
Shares Outstanding			283.4
Options (CAD)	$0.00	various	0.0
Warrants (CAD)	$0.00	various	0.0
Convertible Preferred			0.0
Fully Diluted Shares			**283.4**
Assumed Equity Raises			28.6
Fully Diluted Shares (incl. equity raise)			**312.0**

NET ASSET VALUE	% Int.	Discount Rate	US$M	US$ /share
Project NAV Gold Assets				
San Albino	100%	5%	$86	$ 0.28
La Trinidad	100%	3%	$14	$ 0.05
Sub-Total Project NAV			**$100**	**$0.32**
Multiple to Development Assets		**1.00x**	$100	$0.32
Exploration Potential				
In-Situ Valuation		**2.0 MM oz**	**@ C$50.00/oz** **$75**	**$0.24**
Total Project NAV			**175**	**$0.56**
Corporate Adjustments			**US$M**	**US$/share**
Total Corporate Adjustments			**$0**	**$0.00**
Total Corporate NAV		**US$/share**	**$175**	**$0.56**
Target Price		**C$/share**	**$ 231**	**$ 0.80**
Share Price / NAV				0.23x

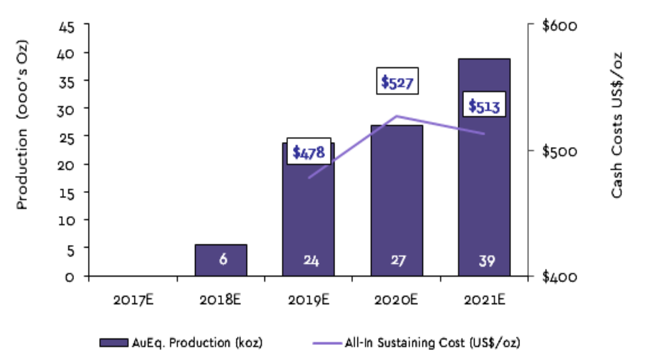
PRODUCTION ESTIMATES	2017E	2018E	2019E	2020E	2021E
San Albino	-	-	-	19	39
La Trinidad		6	24	7	-
AuEq. Production (koz)	-	**6**	**24**	**27**	**39**
Costs					
Operating Cash Cost	-	-	$361	$280	$286
Total Cash Cost (US$/oz)	-	-	**$394**	**$345**	**$364**
G&A	-	-	$0	$75	$75
Exploration	-	-	$0	$19	$13
Sustaining Capital	-	-	$84	$88	$61
All-In Sustaining Cost (US$/oz)			**$478**	**$527**	**$513**

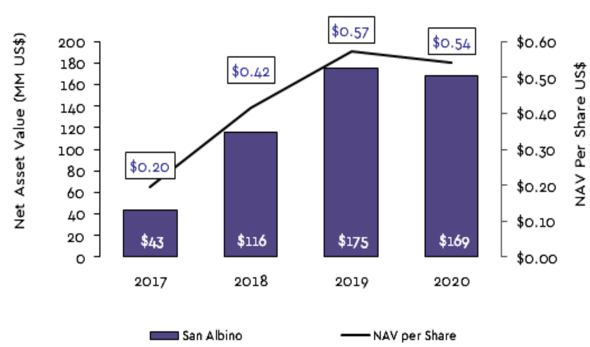
GOLD PRICE ASSUMPTION	2018E	2019E	2020E	2021E
Gold Price(US$/oz)	$1,287	$1,300	$1,300	$1,300

FINANCIAL SUMMARY	2017E	2018E	2019E	2020E	2021E
Basic Shares Outstanding (MM)	283	283	312	312	312
EPS	$ (0.00)	$ -	$ 0.04	$ 0.04	$ 0.06
P/EPS	N/A	N/A	3.1x	3.5x	2.3x
Target/EPS	N/A	N/A	14.6x	16.6x	10.8x
CFFOPS	$ (0.00)	$ 0.01	$ 0.04	$ 0.05	$ 0.07
P/CFFOPS	N/A	N/A	2.9x	2.6x	1.8x
Target/CFPS	N/A	N/A	13.6x	12.3x	8.4x
Income Statement					**$MM**
Revenue	$0	$7	$31	$35	$50
Operating Expenses	$0	$4	$9	$9	$14
General & Adm.	$0	$1	$1	$2	$3
Exploration exp.	$0	$0	$1	$1	$1
Depreciation	$0	$1	$1	$4	$5
Net Income	($0)	$1	$13	$11	$17
Balance Sheet					**$MM**
Cash & S.T. Inv.	$0	$3	$2	$13	$32
NC Working Capital	$0	$0	$0	$0	$0
Long-term Debt	$0	$0	$21	$21	$21
Shareholder Equity	($0)	$1	$20	$31	$48
Cash Flow					**$MM**
Op. CF (Before W/C)	($0)	$2	$14	$15	$22
Financing CF	$0	$0	$27	$0	$0
Investing CF	$0	($2)	($42)	($4)	($2)
Change in Cash	($0)	($1)	($1)	$11	$20
Free Cash Flow	($0)	$0	($28)	$11	$20

ESTIMATES AND CONSENSUS					
Year-end April 30		**2018E**	**2019E**	**2020E**	**2021E**
CFFOPS	Clarus	$0.01	$0.04	$0.05	$0.07
	IBES Consensus	n/a	n/a	n/a	n/a
EPS	Clarus	$0.00	$0.04	$0.04	$0.06
	IBES Consensus	n/a	n/a	n/a	n/a

MODELLED RESERVES & RESOURCES	% Int.	M t	Au g/t	Gold MMoz	Mine Life (yr)
San Albino	100%	7.8	4.0	1.0	10





Source: Clarus Securities

Clarus Securities Equity Research Disclosures

The analyst has visited the Company's mining operations in Nicaragua. Partial payment or reimbursement was received from the issuer for the associated travel costs.

General Disclosure

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