

Euro Sun Mining Inc.

BUY

ESM-TSX

September 28, 2016

 Last: **C\$1.16**
 Target: **C\$2.70**

Initiating coverage: Euro Sun is the new old kid on the block - 10mm equivalent ounce near term developer

Low capex plan to become a low cost producer: We believe that the Rovina Valley project in Romania has the potential to be a modest capex long life project. Once the mine is up and running, we see Euro Sun becoming a modest sized low cost producer. We model slightly greater than 90k oz of gold production annually at very low AISC of sub \$100/oz because of a sizeable copper credit. As a result, free cash generation is expected to be strong right from the first year of production.

Upcoming milestones should increase confidence in story: Euro Sun is working on trade-off studies, which should be completed by year end, for its Rovina Valley Project. The study results will help investors get a better picture of project scalability. Further, the company plans to start on a project FS in 1Q17 which, in our opinion, will confirm viability of the project and should lead to a stock price re-rate as the project is de-risked. At the same time, RVP will act as a starting point for the company as it evaluates other regional exploration opportunities.

Valuation offers a good entry point: Euro Sun's Rovina Valley Project has robust economics and upside. At a current market cap of ca. C\$45mm and trading at an EV/oz of \$5/oz and \$10/oz (on the open pit resources), Euro Sun offers investors a well-priced entry point. Euro Sun is a junior explorer co. with a robust "starter" project. If another ounce is never found, Euro Sun already owns a potentially extremely robust project. Our estimates are early stage but based in real costs. We understand that Euro Sun is an early stage story. Hence, we have discounted our typical metrics. For a full break down of NAV see page 5.

Valuation and recommendation

Based on our model assumptions, we determine fully funded NAV5% to be \$6.80/sh. Considering that RVP is still in its early stages (no reserve estimate yet and future financing risks) and a FS on the project is still a year way, we are using a conservative 0.3x NAV multiple. Our multiple captures future equity dilution as Euro Sun will need to raise fund to build a mine. We are launching with a target price of C\$2.70/sh and a BUY recommendation.

| | |
|---------------------------|---------|
| Rating | BUY |
| Target | C\$2.70 |
| Gold Production 2020E (k) | 92.6 |
| Gold Production 2021E (k) | 92.6 |
| Gold Production 2022E (k) | 92.6 |

Share Data

| | |
|--------------------------------|-----------------|
| Share o/s (mm, basic/f.d. itm) | 59.3/49.9 |
| 52-week high/low | C\$1.45/C\$0.18 |
| Market cap (m) | C\$57.5 |
| EV (m) | C\$46 |
| Net debt (m) | (\$8.8) |
| Projected return | 133% |
| NAV0%/share | \$13.31 |
| NAV5%/share | \$6.80 |
| P/NAV0% | 0.07x |
| P/NAV5% | 0.13x |

Financial Data

| YE Dec. 31 | 2020E | 2021E | 2022E |
|------------------------|--------|--------|--------|
| Gold production (k oz) | 92.6 | 92.6 | 92.6 |
| EPS | \$0.93 | \$0.91 | \$0.90 |
| CFPS | \$1.81 | \$1.82 | \$1.82 |
| P/E | 1.0x | 1.0x | 1.0x |
| P/CF | 0.5x | 0.5x | 0.5x |

All figures in US\$ unless otherwise noted

 [Current Chart](#)
 [Previous Research](#)

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Location – Historical mining jurisdiction

The Rovina Valley Project (“RVP”) is located in the Golden Quadrilateral Mining District of the South Apuseni Mountains in west-central Romania, approximately 300 km northwest from Romania’s capital city of Bucharest. The project area is 27.68 km² and is accessible year round via a two-lane highway from Brad followed by secondary paved roads. Having traveled to the site in mid-August 2016 we can attest to the ease of access.

Mining in the Golden Quadrilateral commenced during the Roman period (ca. 2000 years ago) and has since produced greater than 55mm oz of gold, making the region one of Europe’s largest gold producing areas.

Established infrastructure which is improving

The Golden Quadrilateral Mining district has established power, transportation (road and rail) and all needed infrastructure for commercial scale mining. The București River flows in the area and is the most significant water source. Past drilling programs have used creek water, which has been adequate for exploration purposes. Nearby towns can provide basic mining and both early stage exploration and project development needs. Mining equipment and services for advanced development will likely have to be obtained from bigger cities in the country, such as Timisoara or Bucharest, or from other locations in Europe. But again, these larger centres are an easy driving distance away. Currently the western portion of Romania is being opened up by a major highway expansion. The highway is nearing completion and looked to be only months away from opening for traffic when we visited in August. Current roads and infrastructure are good and only getting better.

Project history – A basis to have a favourable view

The South Apuseni Mountains has a rich mining history that can be traced back to almost 2,000 years ago.

In the more recent history of the South Apuseni Mountains, exploration work commenced in the mid-1970s as both the Romanian government and Minexfor engaged in the area. Minexfor initiated an extensive diamond drilling program at Rovina to test for mineralization and also performed exploration work at the Colnic deposit.

Rio Tinto was briefly active in the region after the company was, in 1999, granted an exploration licence for an area of approximately 24 km x 30 km. However, the licence was relinquished a year later.

In 2004, the Rovina property was acquired by Carpathian Gold (which is now Euro Sun Mining) and the company commenced a drilling program after obtaining an exploration licence in 2005. A resource estimate compliant with NI 43-101 was completed in 2009 for Colnic, Rovina and Ciresata Deposits and was the basis of the PEA study released in 2010.

A favourable PEA on a potential gold and copper operation at RVP was released in April 2010. The study envisioned the usage of open pit mining at the Rovina and Colnic deposits and underground mining at Ciresata, and recovery via crush/SAG and ball grind/flotation.

The PEA estimated a pre-tax NPV8% of \$316mm and IRR of 15.7% (using \$900/oz Au and \$2.25/lb Cu – base case). Initial capex for the project was budgeted to be \$509mm (\$47mm for open pit

mining costs, \$60mm for underground mining costs, \$148mm for processing costs, \$131mm for indirect costs, and \$78mm for contingencies). Other highlights from the PEA include annual gold production of 196k oz at cash cost of \$379/oz.

In May 2015, Euro Sun was granted a 20-year mining licence for RVP, paving the way to commence the permitting process. Trade-off studies focusing on project scalability are underway and a project FS is planned in 2017. We expect that the go-forward approach to RVP will be scaled back compared to the original 2010 Carpathian study.

Reserves and resources

As of July 2012, when the last mineral resource estimate was completed, M&I resources at RVP were 7.19mm oz of gold grading 0.55 g/t and 1,420mm lbs of copper grading 0.16%. Based on the estimate provided, we determine an M&I (open pit) of 3.21mm oz of gold grading 0.42 g/t and 880mm lbs of copper grading 0.17% and an M&I (underground) of 3.97mm oz of gold grading 0.75 g/t and 540mm lbs of copper grading 0.15%. The open pit portion of the deposit will be our focus as we believe the open pit ounces provide the company with a smaller scale lower capex option compared to original study. De-risking the existing open pits, while continuing exploration activities over the property package, is a likely path forward.

Currently there is no reserve estimate.

Mining in Romania

Eldorado Gold and Gabriel Resources are other companies active in Romania.

Eldorado has an 80.5% ownership in the Certej project which is also located in the Apuseni Mountains in western Romania. Eldorado completed a project FS in 2015 and is currently working towards advancing permitting, infrastructure and engineering.

In late August, Eldorado announced that it would commence a drilling program later in the year at Bolcana, which is a porphyry copper-gold system located in the Golden Quadrilateral mining region of the Apuseni Mountains. We expect positive news from Eldorado to have a positive “knock-on” effect for Euro Sun. A larger market cap company as Eldorado advancing a project in the same area as Euro Sun should help build interest and credibility going forward.

Gabriel Resources has an 80.7% ownership in the Roşia Montană gold and silver project, which is also located in Romania’s Golden Quadrilateral district in the South Apuseni Mountains of Transylvania. The project has been stalled in the permitting phase as there have been environmental concerns over the company’s plan to use cyanide to recover gold. Further, there are fears that mine development would require the destruction of a number of archeological sites and damage the country’s Roman era mining galleries, which are regarded by many as an important part of the country’s cultural heritage. Due to the permitting challenges, Gabriel Resources has initiated an arbitration process against Romania.

Key differences between Euro Sun’s RVP and Gabriel’s Roşia Montană

Unlike Roşia Montană’s, which is a higher grade vein deposit, RVP is a low grade recent discovery. In fact the low grade nature of the deposit at Rovina is the reason that prevented historical mining on the property and the development of archeological sites on/close to the property. As a result, construction of a mine at Rovina will not require the destruction of archeological sites and

historical buildings. On the other hand, Roşia Montană's proximity to heritage sites will require the demolition of archeological sites and historical buildings.

Environmental concerns have been raised over the use of cyanide to recover gold. However, ore recovery at Rovina will not involve cyanide use. But, ore recovery at Roşia Montană will require cyanide usage.

It is also important to mention that despite all the issues Roşia Montană's has been facing, RVP received a mining licence (that still needs to be ratified). The licence given to Euro Sun for RVP is the first licence issued to a non-government owned mining company, showing that the government sees the two projects as different. Another benefit of being a non-government owned mining company is that the local community does not view Euro Sun as "another western company working with the government to steal local resources." RVP was never owned by the government whereas other projects in the area, such as Certej and Roşia Montană, have government ownership.

Negative news out of Roşia Montana may act as an overhang to RVP and hence, to Euro Sun's stock price. But we feel that the two projects are adequately differentiated and that the Euro Sun valuation discount to peers pays investors for the overhang. We believe that Euro Sun will not face major permitting issues.

Upcoming milestones and timeline

Euro Sun intends to complete the trade-off studies for Rovina Valley by year end and then start on a FS in 1Q17. The FS should take one year to complete. The project EIA should take two years to complete and is planned to start as soon as the mining license is ratified, which the company expects will happen by early 2017.

Our model

We model a smaller scale approach as the likely path forward for RVP relative to the path the company published and saw in 2010. Times were different back then and the market was much more conducive to a company wanting/trying to raise project capital. Euro Sun's management is keen to advance RVP and is cognizant of the current market conditions. The existing published economics on the project include the underground project which, we estimate, accounted for approximately 60% of the production but also 56% of the total capex (total mining capex was budgeted to be \$220mm of which 44% was budgeted for open pit mining and 56% was budgeted for underground mining). We have removed the underground portion from our evaluation and concentrate solely on the open pit resources recovered via crush/grind/flotation. Development of the underground portion will likely be contemplated at a later time, using operating cash flow from the open pit operations and/or on a de-risked equity base. But for the initial stages of the Euro Sun story, we have excluded an underground operation from our valuation and view the underground portion as more for option value down the road once Euro Sun and RVP are more established.

The basic assumptions feeding our RVP DCF model are:

- Gold price (long-term): \$1,400/oz
- Copper price (long-term): \$2.85/lb
- Life of mine: 20 years

- LOM gold production: 1.85mm oz
- LOM copper production: ca. 794mm lbs
- Plant throughput capacity: ca. 21.9k tpd
- Gold recovery: 75%
- Strip ratio: 2.00
- Development capex: \$360mm
- Sustaining capex over LOM: \$540mm
- Production start: 2020

Using our data from existing producing similar size assets and referencing the existing technical data, we are comfortable with the opex estimates of sub \$2.00/tonne mining and \$6.00/tonne milled. Romania's cost of living is quite low by European standards. On our recent visit, we were surprised by how inexpensive it was. For instance, a pint of beer was less than a euro, a hotel room cost fewer than 25 euros, and protein in the local market was steeply discounted to normal European pricing. Local power is also cheap and abundant. Although Romania is a net exporter of power, current industrial electricity rates in the country are ca. EUR 0.08/kWh. While conducting our due diligence, we visited a soon-to-be complete power dam only a few kilometres from RVP. As stated earlier in this report, we were very impressed by the ample infrastructure.

Valuation

Based on our model assumptions, we determine corporate NAV5% to be \$6.80/sh. We estimate RVP's NPV5% to be \$6.65/sh. Considering that RVP is still in its early stages (no reserve estimate yet and future financing risks) and a FS on the project is still a year away, we are using a conservative 0.3x NAV multiple. Our multiple captures future equity dilution as Euro Sun will need to raise funds to build a mine. We are launching with a target price of C\$2.70/sh and a BUY recommendation.

Risks

In our opinion, the biggest risks Euro Sun faces are development risk and country risk.

RVP is an early stage project with established resources but has no reserves. Hence, there is uncertainty on the total ounces that can be mined economically. We are confident in the resource but feel that investors may want to see new study results, including a FS, before getting more comfortable with the story. Further, development companies have found it difficult to raise money to build mines, despite robust economics in some cases, as the mining sector has experienced a slowdown of capital flowing into the sector. Even in the wake of a positive FS, there can be no guarantee that Euro Sun will be able to raise ample funds to build RVP.

After seeing the issues Gabriel Resources is facing in Romania, investors may be wary about investing in Euro Sun, which is also based in Romania. As we mentioned before, unlike Gabriel's Roşia Montană project, Euro Sun's RVP is not thought to be located on any archeological or culturally important sites. Discovery of new archeological sites close to RVP could adversely impact development timelines and/or the future of the project.

We are using a very conservative NAV multiple to account for both these risks and feel that the current stock price reflects the fears, offering a good entry point.

Figure 1. Summary comparison table – developers

| Company | Ticker (TSX) | Analyst | Price as of 27-Sep-16 (C\$/sh) | Rating | Target (C\$/sh) | Total Return (%) | Market Cap (US\$ mm) | EV (US\$ mm) | NAV/sh @5% | | P/NAV @5% | | | NI 43-101 | 2018 - 2021 Outlook | | | |
|-------------------------------------|-----------------|-----------|--------------------------------------|------------|--------------------|------------------------|-------------------------|-----------------|-------------------|----------------------|-------------|----------------|---------------|-------------------------------------|------------------------|------------|------------|------------|
| | | | | | | | | | Spot (US\$/sh) | \$1,400 (US\$/sh) | Spot (x) | \$1,400 (x) | Target (x) | EV / MI&I Resources (US\$/oz) | Production (koz Au) | | | |
| | | | | | | | | | | | | | | | 2018e | 2019e | 2020e | 2021e |
| Developers | | | | | | | | | | | | | | | | | | |
| TMAC Resources ^{1,6,e} | TMR | OT | C\$ 18.10 | BUY | C\$ 19.50 | +8% | \$ 1,133 | \$ 986 | \$ 13.82 | \$ 14.89 | 0.99 | 0.92 | 1.00 | \$ 166 | 212 | 191 | 181 | 194 |
| Lundin Gold ^{1,6} | LUG | SB | C\$ 5.64 | R | R | R | \$ 504 | R | R | R | R | R | R | R | R | R | R | R |
| Continental Gold ^{1,6} | CNL | SB | C\$ 3.87 | BUY | C\$ 7.25 | +87% | \$ 413 | \$ 373 | \$ 7.62 | \$ 8.31 | 0.38 | 0.35 | 0.60 | \$ 42 | 31 | 252 | 255 | 348 |
| Integra Gold ^{1,6,d} | ICG | IR | C\$ 0.77 | BUY | C\$ 1.25 | +62% | \$ 260 | \$ 214 | \$ 1.06 | \$ 1.15 | 0.55 | 0.51 | 0.85 | \$ 98 | 56 | 107 | 123 | 131 |
| Lydian International ^{1,7} | LYD | OT | C\$ 0.45 | BUY | C\$ 1.10 | +144% | \$ 226 | \$ 169 | \$ 0.97 | \$ 1.07 | 0.35 | 0.32 | 0.80 | \$ 33 | 169 | 252 | 345 | 260 |
| Euro Sun Mining | ESM | IP | C\$ 1.16 | BUY | C\$ 2.70 | +133% | \$ 44 | \$ 35 | \$ 6.24 | \$ 6.80 | 0.14 | 0.13 | 0.30 | \$ 5 | - | - | 93 | 93 |
| Chesapeake Gold ^{7,f} | CKG | SB | C\$ 5.29 | HOLD | C\$ 7.50 | +42% | \$ 176 | \$ 158 | - | - | - | - | - | \$ 8 | - | - | - | 146 |
| NewCastle Gold ^{1,7} | NCA | OT | C\$ 1.09 | BUY | C\$ 1.40 | +28% | \$ 131 | \$ 126 | \$ 1.06 | \$ 1.23 | 0.78 | 0.67 | 0.90 | \$ 26 | - | 21 | 143 | 155 |
| Orezone Gold ^{1,7} | ORE | OT | C\$ 0.77 | BUY | C\$ 1.00 | +30% | \$ 89 | \$ 63 | \$ 0.83 | \$ 1.41 | 0.70 | 0.41 | 0.80 | \$ 14 | 49 | 162 | 148 | 128 |
| Pershing Resources ^{1,7} | PRO | OT | C\$ 0.30 | R | R | R | R | R | R | R | R | R | R | R | R | R | R | R |
| Average | | | | | | +67% | | | | | 0.56 | 0.47 | 0.75 | \$ 49 | 103 | 164 | 184 | 182 |

^d ICG bulk sample production estimate of 11koz at YE17

^e TMR production start in 2017 with 139 koz at cash costs of \$452/oz

^f CKG production and cash cost estimates as per 7 Mar 2016 prefeasibility study

Source: GMP Securities



Euro Sun Mining Inc. (ESM CN)

Stock Rating: BUY
 Target Price: \$2.70
 Share Price: \$1.16
 Implied Return: 132.8%
 Market Cap (\$mm): C\$57.5

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Company Summary

Euro Sun Mining is a Canadian-based development-stage mining company focused on developing its 100%-owned Rovina Valley Project, located in west-central Romania.

| Reserves / Resources | Tonnes | | | | |
|----------------------|--------|--------|------|----------|----------|
| | (MM) | Au g/t | Cu % | Au oz MM | Cu lb MM |
| Rovina M+I | 405.9 | 0.55 | 0.16 | 7.19 | 1,420 |

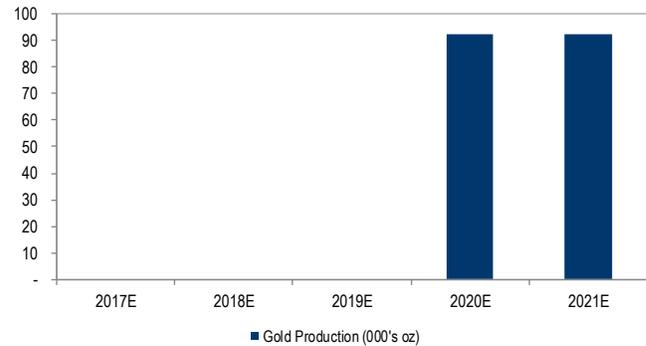
Investment Thesis & Catalysts

Euro Sun is an early stage development company that will become a +90k oz per year producer at sub \$100/oz AISC once Rovina Valley is operational. We believe that the development capex for Rovina Valley will be modest and the project has robust economics. A feasibility study on the project is expected to commence in early 2017 and should help confirm our views and improve investor confidence.

| GMP Commodity Forecast | 2017E | 2018E | 2019E | 2020E | 2021E |
|------------------------|-------|-------|-------|-------|-------|
| Gold Price (US\$/oz) | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 |
| Silver Price (US\$/oz) | 21.50 | 21.50 | 21.50 | 21.50 | 21.50 |

| Production (100% basis) | 2017E | 2018E | 2019E | 2020E | 2021E |
|----------------------------|-------|-------|-------|-------|-------|
| Gold Production (000's oz) | - | - | - | 93 | 93 |

| Financial Data | 2017E | 2018E | 2019E | 2020E | 2021E |
|---------------------------|---------|---------|---------|---------|---------|
| Cash | (128.4) | (296.7) | (310.9) | (253.2) | (194.6) |
| Debt | - | - | - | - | - |
| Total Debt / Total Assets | - | - | - | 0% | 0% |
| EPS (Adjusted) | (0.54) | (0.55) | 0.98 | 0.93 | 0.91 |
| CFPS | (0.34) | (0.33) | 1.77 | 1.81 | 1.82 |
| P/E | - | - | 0.9x | 1.0x | 1.0x |
| P/CF | - | - | 0.5x | 0.5x | 0.5x |
| EV/EBITDA | - | - | 0.3x | 0.3x | 0.3x |



| Income Statement | 2017E | 2018E | 2019E | 2020E | 2021E |
|----------------------------------|--------|--------|-------|-------|-------|
| Revenue | - | - | 229.3 | 229.3 | 229.3 |
| EBITDA | (46.9) | (46.9) | 102.9 | 102.9 | 102.9 |
| EBIT | (46.9) | (46.9) | 89.9 | 84.7 | 83.0 |
| Net Income | (31.9) | (32.7) | 58.4 | 55.0 | 54.2 |
| EPS (Adjusted) | (0.54) | (0.55) | 0.98 | 0.93 | 0.91 |
| EBITDA/Share | (0.94) | (0.94) | 2.06 | 2.06 | 2.06 |
| Basic Shares Outstanding | 49.9 | 49.9 | 49.9 | 49.9 | 49.9 |
| Options & Warrants | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 |
| Fully Diluted Shares Outstanding | 59.3 | 59.3 | 59.3 | 59.3 | 59.3 |

| Cash Flow | 2017E | 2018E | 2019E | 2020E | 2021E |
|------------------------|---------|---------|---------|---------|---------|
| Net Income | (31.9) | (32.7) | 58.4 | 55.0 | 54.2 |
| Depreciation | - | - | 13.0 | 18.3 | 19.9 |
| Other | 15.2 | 16.4 | 17.3 | 17.1 | 16.5 |
| Operating Cash Flow | (16.7) | (16.3) | 88.6 | 90.3 | 90.7 |
| Investing Cash Flow | (80.0) | (150.0) | (100.0) | (30.0) | (30.0) |
| Financing Cash Flow | (0.7) | (2.0) | (2.8) | (2.6) | (2.1) |
| Cash Increase/Decrease | (97.5) | (168.3) | (14.2) | 57.7 | 58.6 |
| Ending Cash | (128.4) | (296.7) | (310.9) | (253.2) | (194.6) |
| Free Cash Flow | (96.7) | (166.3) | (11.4) | 60.3 | 60.7 |

Company Management

G. Scott Moore President and Chief Executive Officer
 Peter Tagliamonte Chairman
 Paul Bozoki Chief Financial Officer
 Joe Milbourne Vice President Technical Services

| NAV Valuation | Ownership | Discount | USD MM | USD/Sh |
|--------------------------------|-----------|----------|--------------|-------------|
| Assets | | | | |
| Cash | | | 8.8 | 0.15 |
| Rovina | 100% | 5% | 394.8 | 6.65 |
| Development Assets | 0% | 0% | - | - |
| Total Assets | | | 403.6 | 6.80 |
| Liabilities | | | | |
| Long-term Debt | | | - | - |
| Total Liabilities | | | - | - |
| Net Asset Value | | | 403.6 | 6.80 |
| P/NAV Multiple | | | | 0.30x |
| Exchange Rate C\$/US\$ | | | | 0.76 |
| Net Asset Value (CAD\$) | | | | 8.95 |

Source: Company Reports, GMP Securities, Bloomberg, FactSet

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Tender: Clients are advised to tender their shares to a takeover bid or similar offer.

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