

CERRADO GOLD (TSXV: CERT)

Founded in 2017, Cerrado Gold is a Toronto-based mining and exploration company with an attractive portfolio of precious metal assets in South America. The company owns and operates Minera Don Nicolas (MDN), a producing gold and silver mine in Argentina & Monte Do Carmo (MDC), a low cost gold development project in Brazil. MDN is located in a prolific mining belt, the Deseado Masiff, that includes mines owned by large global players AngloGold, Newmont and Yamana. MDC is located in Tocantins state in central Brazil, an agricultural area that had been exploited for gold by Europeans since the late 17th century.

COMPANY HIGHLIGHTS

- * CERT: An Emerging Mid-Tier Gold and Silver Producer in South America
- * Minera Don Nicolas (MDN), located in Argentina, is currently in production, but remains in the early stages of exploration and expansion. Cerrado also owns Monte do Carmo (MDC) in Brazil, a world-class gold project in the exploration and development stage. Management expects these two assets to transform the company into a low-cost, intermediate-tier gold and silver producer.
- * In 2021, MDN produced more than 42,000 gold equivalent ounces (GEO), representing a 155% increase over 2020, and 94,000 ounces of silver (155% growth over 2020). The mine has recently undergone several initiatives to improve efficiency and product grading for the long-term.
- * For MDC, an August 2021 preliminary economic assessment (PEA) yielded an after tax NPV of \$617 million and IRR of 94%. The analysis assumed a potential eight-year mine life with a 1.3-year payback period, with positive after-tax cash flow commencing in year 1. We expect Cerrado to confirm these results in a feasibility study and begin construction activities as early as 2023.
- * As of December 31, 2021, Cerrado had \$1.7 million in cash and equivalents on its balance sheet, compared with \$6.6 million at the end of 2020. Subsequently, the company's capital position was significantly bolstered by a March 2022 agreement with Sprott Resource Streaming and Royalty, which yielded \$20 million. Further, we

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PRICE CHART



KEY STATISTICS

Key Stock Statistics

Recent price (5/6/22, CAD)	1.58
Fair Value Estimate (CAD)	5.50
52 week high/low (CAD)	1.96 - 1.23
Shares outstanding (M)	76.6
Market cap (M, CAD)	121.0
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Materials
Sector % of S&P 500	2.6%

Financials (\$M, USD, as of 12/31/21)*

Cash & Mkt Securities	1.8
Debt	10.3
Working Capital (\$M)	-13.6
Current Ratio	0.8
Total Debt/Equity (%)	53%
Payout ratio	NM
Revenue (M) TTM	70.1
Net Income (M) TTM	NM
Net Margin	NM

*Company Reports in USD

Risk

Beta	NA
Inst. ownership	6%

Valuation

P/E forward EPS	6.8
Price/Sales (TTM)	1.3
Price/Book (TTM)	6.8

Top Holders

Franklin Resources, Inc.

Management

CEO	Mr. Mark Brennan
President	Mr. Cliff Hale-Sanders
COO	Mr. Kurt Menchen
Company website	www.cerradogold.com

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expect the company's increasing production at MDN's heap leach operations to increase cash flow generation favorably over time.

- * Despite 8% stock price appreciation year-to-date, we believe the current valuation remains well below peer levels, and does not adequately reflect the company's strong underlying fundamentals. Its recent market capitalization of approximately C\$140 million, corresponds to just 0.1x NPV.
- * We believe that Cerrado shares are trading at a discount to its peers due to its nascent public trading history, with minimal value ascribed to the MDC opportunity in Brazil and the immediate growth anticipated in Argentina. Based on our EV/EBITDA and P/NPV analyses, we arrive at a fair value estimate of C\$5.50 (\$4.25), well above its current price near C\$1.60 (\$1.26)

INVESTMENT THESIS

Cerrado Gold is a Toronto-based mining and exploration company with what we view as an attractive portfolio of precious metal assets in South America. The company owns and operates Minera Don Nicolas (MDN), a producing gold and silver mine in Argentina. The mine is located in a prolific mining belt, the Deseado Masiff, that includes mines owned by large global players AngloGold, Newmont and Yamana. Most recently, Barrick also entered the region through an earn-in with Latin Metals. Notably, Cerrado holds one of the largest and most attractive land packages within the Deseado Masiff.

MDN is currently in production, but remains in the early stages of exploration and expansion. Cerrado also owns Monte do Carmo (MDC) in Brazil, a world-class gold project in the exploration and development stage. Management expects these two assets to transform the company into a low-cost, intermediate-tier gold and silver producer in the near term.

Cerrado was founded in 2017 on the basis of the MDC opportunity in Brazil, and acquired the newly producing MDN mine in March 2020. The company went public in 1Q21. Cerrado's strategy is to generate cash flow from the MDN mine in Argentina that will support its exploration and development efforts at both sites. In 4Q21, the company boosted gold production by 46% from the prior quarter, to over 15,000 gold equivalent ounces. This represented a new high-water mark for production and the fifth consecutive quarter of operational improvement. For the full-year 2021, the 42,267 ounces of gold production represented the highest level of production in MDN's history and 155% increase over 2020. We are encouraged by recent monthly production trends that represent an annualized run rate in excess of Cerrado's sustained target annual run-rate of 45,000-55,000 ounces. For 2021, the company achieved an average realized price per gold ounce sold of \$1,747 compared with cash operating costs per ounce sold of \$1,057 per ounce.

Cerrado is also developing a plan to produce additional ounces through a heap-leach operation, which uses a low-cost process to extract lower-grade ores from their source mineral. The company completed an internal Preliminary Economic Assessment (PEA) on the Calandrias project, which yielded a current project life exceeding 3 years, which could deliver more than 25,000 ounces per annum. Cerrado expects to commence initial production in the first quarter of 2023. The Company is also completing an internal study for a second heap leach at the site, which is expected around mid-2022, and initial production could begin near the end of 2023. With additional waves of heap leach activity, Cerrado has identified a pathway to reach up to 95,000 ounces of annual production from MDN in the near term.

Including projected annual production of 150,000-200,000 ounces from MDC, Cerrado sees the potential for run-rate gold production of 250,000-260,000 ounces by the end of 2026 — close to the threshold of 300,000 ounces for mid-tier producers and implying an above peer-average growth rate of more than 500% between 2021 and 2026.

Cerrado is aggressively exploring to expand its total resource footprint. In 2019, the company had 813,000 ounces of inferred resource within the Serra Alta deposit at the MDC site in Brazil. Currently, Indicated and Inferred resources stand at over 1.3 million ounces. An additional resources update is expected in 2Q22, following completion of the ongoing 17,000 meter infill campaign at Serra Alta. Its current resource profile, including MDN, is approximately 2.28 million ounces, with MDC accounting for approximately 60% of the total. In the next year, Cerrado has aggressive exploration programs at both MDC and MDN and expects to continue to identify additional ounces and upgrade resources. Despite already being in production, we believe Cerrado's exploration story in both Brazil and Argentina will continue to develop.

As noted above, the MDC site in Brazil was the basis for the formation of Cerrado Gold. Due diligence on the site confirmed the initial outlook for more than 5 million ounces. The site consists of a primary gold deposit, Serra Alta, with the potential of 2.0-2.5 million ounces, with numerous satellite deposits already identified over 30 kilometers of mineralized trends. As site resources have expanded, PEAs on the site have yielded robust after-tax net present values that support the site's development. A PEA conducted on initial inferred resource announced in October 2020 yielded an after-tax net present value (NPV) of \$430 million and internal rate of return (IRR) of 76%, assuming a 5% discount rate. More recently, an updated PEA announced in August 2021 yielded an after tax NPV of \$617 million and IRR of 94%, using the same

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
CERRADO GOLD	TSXV: CERT	1.58*	1.96*	1.23*	121*	8	NM	NM	NM	NA	NA
BELO SUN MINING CORP.	TSX: BSX	0.34*	0.88*	0.29*	149*	-56	NM	NM	NM	1.21	NA
CALIBRE MINING CORP.	TSX: CXB	1.19*	2.36*	1.11*	533*	-41	35	-11	5.7	2.78	NA
ARIS GOLD CORPORATION	TSX: ARIS	1.76*	2.55*	1.21*	243*	-31	14	NM	NM	1.98	NA

* Statistics in Canadian Dollars (CAD)

discount rate. The latter report assumed a potential eight-year mine life with a 1.3-year payback period, with positive after-tax cash flow commencing in year 1. Total cumulative, after-tax free cash flow over the life of mine is estimated at \$762 million at what we view as a conservative \$1,600/oz. gold price. Furthermore, suggested production costs of \$431 per ounce over the first five years of mine life would make the company one of the lowest-cost producers of gold in the world. By comparison, Cerrado looks for higher production costs of approximately \$1,000 per ounce at MDN in Argentina, but still expects the associated free cash flow to be substantial.

We expect Cerrado to complete a more-robust feasibility study to confirm these findings (likely around 1Q23), begin construction on the MDC site around mid-2023, and launch production by the first quarter of 2025. The company expects the mine to produce approximately 130,000 high-value ounces of gold annually. We expect the production schedule to vary based on the findings of the drilling program and the revised resource estimate.

The company's exploration activities in Argentina are expected to expand the estimated resource from a current 950,000 ounces to 1.3-1.5 million ounces towards the end of 2022. Management has identified multiple high-priority targets on the site that have seen only limited exploration under previous ownership. The site is expected to develop high-grade gold that can be brought into production quickly as well as introducing a lower grade stream through the construction of heap leach facilities. The addition of this stream expands the resource potential at MDN, increases the production profile and potentially reduces operating costs. Importantly, exploration at the Argentina site has not yet progressed to underground drilling and has been limited to extracting gold from the open pit areas. As such, we view the Argentina project as being in the discovery phase, despite producing the initially identified resource, with prospects for future growth. For reference, Anglo-Gold, a large player in the region, recently cited a total resource of 8 million ounces at its site, well above the 2 million ounces initially identified during the exploration of the site's open pit.

Cerrado's executive team has a record of success in managing mineral projects in South America from early-stage exploration to mine development and production. Its leadership and investor teams have worked together on multiple projects, including Desert Sun Mining, which, after a significant resource expansion, was sold to Yamana. Management's experience working with mining industry leaders throughout South America has provided the company with new opportunities, such as the MDN mine in Argentina.

In our view, progress at this mine highlights the executional capabilities of Cerrado's management team. Since its acquisition by Cerrado in early 2020, the mine has significantly increased production, as evidenced by its strong reported results in 2021. Management is targeting 45,000-55,000 gold equivalent ounces (GEO) of sustained production at MDN, up from 25,000 ounces previously. In May 2022, Cerrado reported first quarter 2022 production of 13,499 GEO, which was somewhat impacted by availability of explosives and parts for vehicle maintenance. However, the company reaffirmed its production guidance for the full year of 45,000-55,000 GEO at an all-in selling cost of US\$1,100-US\$1,300 per ounce. The company is using strategic drilling to expand the

resource at MDN, underscoring management's ability to maximize production while also generating strong free cash flow that can support future exploration. We expect these expansion efforts to boost investor interest in Cerrado, which only went public in 1Q21.

Lastly, we note that both the MDC and MDN projects should benefit from favorable topography and strong local infrastructure. In Brazil, Monte do Carmo has access to reliable power lines, water supplies, and skilled labor, and is located near a national airport. In addition, the project has obtained permits covering 82,500 hectares. In Argentina, MDN is accessible from nearby ports, and although airport and highway transportation are not in the immediate vicinity, a gas pipeline runs parallel to the highway and groundwater is readily available.

RECENT DEVELOPMENTS

Cerrado Gold shares trade on the Toronto Stock Exchange Venture (TSXV) under the ticker CERT and on the OTCQX under CRDOF. In 2021, the stock rose 18%, compared to a 27% increase for the S&P 500. Year-to-date, the stock has increased by 8%, versus a decline of 17% for the S&P 500.

In April 2022, Cerrado Gold reported financial results for the full-year 2021, highlighted by revenues of \$70.1 million, which represented 118% growth over 2020, and an approximately 50% narrower net loss compared to the prior year.

In May 2022, Cerrado Gold reported first quarter 2022 production of 13,499 gold equivalent ounces (GEO), and reaffirmed its production guidance for the full year of 45,000-55,000 GEO at an all-in selling cost of US\$1,100-US\$1,300 per ounce.

In March 2022, Cerrado Gold closed on a \$20 million stream financing agreement with Sprott Resource Streaming and Royalty to fund the Monte Do Carmo project in Brazil. Under the terms of the agreement, Sprott issued a note for \$20 million, bearing interest at 10% annually, until the earlier of the commencement of commercial production or by March 2031. In addition, Sprott will receive 2.25% of all gold and silver produced by the project, and Cerrado could buy back half of this stream over time.

In 2021, Cerrado Gold expanded its leadership team significantly, as it had advanced its strategic plan. In November 2021, the company appointed David Ball as VP of Business Development. Mr. Ball was most recently CFO of private Chilean copper producer Santiago Metals Limitada, and has held several roles at Macquarie Capital. Mr. Ball has extensive experience in M&A, corporate advisory and equity/debt fund raising across his career in the global metals and mining sector.

In October 2021, Cerrado appointed Clinton Swemmer as VP of Technical Services, succeeding Casper Groenewald, who assumed the role of Chief Operating Officer in August 2021. Mr. Groenewald is a qualified metallurgist and senior exploration geologist with over 20 years of mineral processing experience in Africa and the Americas. In addition, Cerrado appointed Kurt Menchen as president and country manager of Brazilian operations. Mr. Menchen was formerly a founder and the president of Brazilian operations of Largo Resources Ltd., and has over 42 years of experience operating and managing mining projects, including over 20 years as general manager at the Jacobina Gold project (currently owned by Yamana Gold) in Bahia State, Brazil.

In June 2021, Cerrado appointed Dr. Sergio Gelcich, PGEO, as vice president of exploration, succeeding Robert (Andy) Campbell, who retired from day-to-day operations but remains a company director. Dr. Gelcich is a senior exploration geologist with more than 20 years of industry experience. He was most recently exploration director at Hudbay Minerals. Dr. Gelcich is a member of the Association of Professional Geoscientists Ontario (APGO) and serves as Cerrado's "Qualified Person," as defined in National Instrument 43-101.

In addition to its TSX Venture Exchange listing, Cerrado shares also trade in the U.S. OTC Market, and moved to the OTC-QX exchange in July 2021 under symbol "CRDOF".

EARNINGS & GROWTH ANALYSIS

As Cerrado continues development on the MDC project, we expect production at MDN in Argentina to drive the current revenue streams until 2025. We are encouraged by Cerrado's efforts to improve operational efficiency and ore grades. We see its initiatives supporting enhanced results, with modest additional required capital expenditures. Thus, we view the company as well positioned to meet its operational production target between 45,000 – 50,000 ozs of gold per year, before heap leach expansion efforts.

We note that MDN is the only mine in Argentina that did not stop operating during the COVID-19 pandemic, despite significant disruption, and metal production improved throughout 2021, which we believe positions Cerrado well to expand operations in an optimized and more normalized environment. We expect the company to reach a consistent production schedule early in 2022 and forecast revenue of \$93 million in 2022 and \$99 million in 2023, representing growth of 33% and 6%, respectively.

During the fourth quarter of 2021, Cerrado completed a restructuring phase for operations at MDN. Thus, we expect more "normalized" operations, with optimized operating metrics, to continue through 2022 and 2023. The company incurred lower cash operating costs, as expenses were spread across a higher amount of sold ounces as well as improvements in stripping and hauling. We model gross margin at 57% for 2022 and 2023, which tracks the fourth quarter of 2021. Similarly, we expect G&A costs of approximately 22% of revenues over the next couple of years, as Cerrado continues to invest in its operations for improved efficiency and infrastructure expansion.

We forecast EPS of \$0.18 in 2022 and \$0.19 in 2023, compared with a net loss per share of \$0.09 in 2021, driven by improved mine operating margins and enhanced cash flows from operations.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for Cerrado Gold is Medium. Although the company had a modest \$1.7 million in cash and equivalents on its balance sheet as of December 31, 2021, it subsequently raised \$20 million from a stream financing agreement with Sprott Resource Streaming and Royalty to fund the ongoing feasibility study for the MDC project and the site's construction. Importantly, the financing was non-dilutive, and featured a \$20 million note, bearing interest at 10% annually, which we expect to be serviced by operating cash flows from MDN. The Stream Agreement provides for the sale and delivery to Sprott of 2.25% of all gold and silver

produced from the project, and which Cerrado has the ability to buy back 50% of the stream based upon a buyback schedule that escalates between 2024 and 2026. We expect Cerrado's management to limit dilution, and note that the management team holds a roughly 40% ownership stake in the company.

As of December 31, 2021, Cerrado had a current ratio of 0.8, which compares with an average of 1.7 for a basket of global gold producing peers. However, including the March 2022 financing, we view Cerrado's liquidity as more in line with its peer group. Further, we expect working capital to continue to benefit from improved operations, amid a more steady production state, as operational efficiencies are further implemented and refined, thus lowering per unit costs.

In 2021, cash provided by operating activities was \$6.6 million compared to cash provided of \$16.2 million for the previous year. Cash used in investing activities for the latest year was \$21.1 million, compared with \$22.4 million in prior year. Cash provided by financing activities for the latest year was \$9.7 million, compared with \$13.0 million in cash provided by financing activities for the year ended December 31, 2020.

Although we view the company as likely to raise additional external capital to fund its project expansion efforts, we continue to expect Cerrado to be able to raise capital on favorable terms, given what we see as its improving liquidity, supported by growing revenue, cash flow, and earnings.

Cerrado Gold does not pay a cash dividend and we do not expect it to do so for the foreseeable future.

MANAGEMENT

Mark Brennan is Cerrado Gold's CEO and co-chairman. He is a founding partner and executive chairman of Ascendant Resources Inc. and executive chairman of Vanadium One Iron Corp., and has more than 30 years of financial and operating experience in the Americas and Europe. Mr. Brennan most recently served as president and CEO of Sierra Metals Inc., a major zinc-lead-silver-copper mining company with operations in Peru and Mexico. Prior to that, he was the president and CEO of Largo Resources Ltd., and a founder of several resource companies, including Desert Sun Mining, Brasoil Corp., James Bay Resources, Morumbi Oil and Gas, and Admiral Bay Resources.

Cerrado's board currently has nine members, with a majority of them qualifying as independent. We view positively the company's corporate governance, although we note that CEO Mark Brennan also serves as the company's chairman.

RISKS

Risks for Cerrado Gold include inherent exploration and development risks for mining entities, as large initial expenses typically precede potential revenue. In addition, its projects may be subject to risks related to geopolitical issues over time; the company also faces operational risks such as meeting its production targets, achieving sufficient cash flows from operations due to factors including achieving expected metal grading thresholds, selling into favorable metal price and foreign exchange rate environments, and successfully managing its capital expenditure requirements.

COMPANY DESCRIPTION

Founded in 2017, Cerrado Gold is a Toronto-based mining and exploration company with an attractive portfolio of precious metal assets in South America. The company owns and operates Minera Don Nicolas (MDN), a producing gold and silver mine in Argentina. The mine is located in a prolific mining belt, the Deseado Masiff, that includes mines owned by large global players AngloGold, Newmont and Yamana. Most recently, Barrick also entered the region through an earn-in with Latin Metals. Notably, Cerrado holds one of the largest and most attractive land packages within the Deseado Masiff.

VALUATION

In our view, Cerrado's current valuation remains compelling based on multiple metrics and does not fairly reflect the company's strong underlying fundamentals. Over time, we expect higher production and updated resource reports on its developmental projects to drive increased investor interest in Cerrado, which should narrow the gap between the company's market valuation, current production and project NPVs.

We believe its expected strong increase in gold and silver production positions Cerrado to achieve more than 30% revenue growth in 2022 to \$93 million. We value the MDN asset by applying a 4-times multiple to our 2022 EBITDA forecast of \$33 million, which is in line with the peer range for junior miners. Adjusting for net debt of \$22 million following the recent financing

and estimating a fully diluted share count of 110 million after an equity raise to support MDC project construction, we arrive at a fair value for MDN of C\$1.30 (\$1.10).

We note that Cerrado's current market capitalization is close to our fair value estimate for MDN alone. As such, we think the market is currently ascribing minimal value to the MDC asset, which we think has shown robust potential in preliminary economic assessments (PEA) to date. Most recently, the after-tax NPV for this project was \$617 million, which was revised upward from \$430 million in an earlier analysis. In addition, we expect Cerrado to substantially expand its resources from the site over the coming years, the anchor Serra Alta deposit, which was the focus of the PEA, and is one of seven analogue deposits that the company is assessing. Thus, we expect initial production on the site to generate cash flows that Cerrado can deploy to further expand the site's resource and extend the mine life over time.

As such, we apply what we believe to be a conservative 25% premium to the NPV value of the recent PEA and apply a multiple of 0.6-times, in line with junior producers. After adjusting for expected net debt around \$100 million after a capital raise to support MDC construction and development, and using the assumed 110 million fully diluted share count, we arrive at a fair value of C\$4.20 (\$3.30) for MDC. In aggregate, we see a fair value of C\$5.50 (\$4.30) for Cerrado shares, which is well above current levels near C\$1.60 (\$1.26). This analysis applies the recent \$USD to \$C exchange rate of 1.28.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2020	2021	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Metal Sales	32.2	70.1	22.0	23.0	24.0	24.0	93.0	24.0	24.5	24.5	26.0	99.0
Production Costs	24.9	43.2					39.8					42.4
Gross Profit	7.3	26.8					53.2					56.6
Sales Expenses and Royalties	11.8	16.9					20.4					21.6
Operating Income	-7.0	4.2					21.5					22.6
Finance Items	-4.9	-8.9					-2.9					-3.2
Pretax Income	-11.9	-4.7					18.6					19.4
Tax Rate (%)	NA	NA					25					25
Net income	-12.6	-6.3					14.0					14.6
Diluted Shares	44.8	69.9					76.9					77.5
EPS	-0.28	-0.09	0.04	0.04	0.05	0.05	0.18	0.04	0.05	0.05	0.05	0.19
Dividend	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Growth Rates (%)												
Revenue	NA	118					33%					6%
Operating Income	NA	NA					412%					5%
Net Income	NA	NA					NA					6%
EPS	NA	NA					NA					6%
Valuation Analysis												
Price (\$): High	NA	1.89					NA					NA
Price (\$): Low	NA	0.93					NA					NA
PE: High	NA	NA					NA					NA
PE: Low	NA	NA					NA					NA
PS: High	NA	NA					NA					NA
PS: Low	NA	NA					NA					NA
Yield: High	NA	NA					NA					NA
Yield: Low	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL)												
Cash	6.7	1.8					NA					NA
Working Capital	-2.0	-13.6					NA					NA
Current Ratio	0.9	0.8					NA					NA
LTDebt/Equity (%)	0	1					NA					NA
Total Debt/Equity (%)	NA	65					NA					NA
Ratio Analysis												
Gross Profit Margin	22.7%	38.2%					57.2%					57.2%
Operating Margin	NM	NM					NM					NM
Net Margin	NM	NM					NM					NM
Return on Assets (%)	NA	NA					NA					NA
Return on Equity (%)	NA	NA					NA					NA
Op Inc/Int Exp	NA	NA					NA					NA
Div Payout	NA	NA					NA					NA

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