Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Abacus Mining and Exploration Corp. (TSX.V: AME) – Initiating Coverage; Multi Pit Porphyry Development

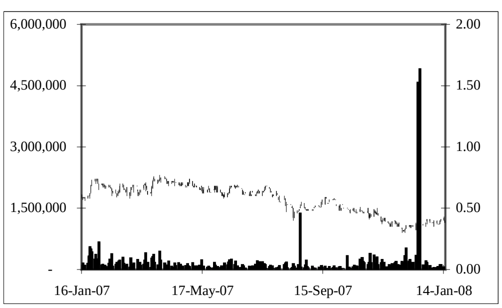
Sector/Industry: Junior Mining/Copper/Gold

www.amemining.com

Market Data (as of January 17, 2008)

Current Price	C$0.355
Fair Value	C$0.60
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C$0.28 - C$0.77
Shares O/S	107,803,341
Market Cap	C$38.27 million
Current Yield	N/A
P/E (forward)	N/A
P/B	0.75
YoY Return	-38.8%
YoY TSXV	-4.9%

*see back of report for rating and risk definitions



Key Financial Data (FYE - December 31) (C $)

	2006	2007 (9 mo)
Cash	4,370,464	13,849,780
Working Capital	4,850,454	13,099,021
Mineral Assets	28,334,900	38,151,634
Total Assets	33,612,130	52,498,684
Net Loss	(935,150)	(942,605)
Loss per Share	(0.01)	(0.01)

Investment Highlights

- Abacus Mining is drilling three copper gold porphyry bodies in the Afton Mining Camp (BC, Canada) to upgrade and expand resources.
- A recent joint venture deal with New Gold Inc. (TSX: NGD) expands the scope of the Ajax East and West deposits to encompass one massive open pit.
- The DM/Audra, Rainbow, and Ajax deposits have a total NI 43-101 compliant resource of 543 million pounds of copper and 267,000 ounces of gold indicated and 1.3 billion pounds of copper and 1.16 million ounces of gold inferred.
- The company acquired infrastructure from Teck Cominco (NYSE: TCK), including a mill building and tailings pond, which will improve the economics of the project and help the company go into production more quickly.
- The company hopes to complete a feasibility study in 2008 and be in production on the DM/Audra deposit by the end of 2010.

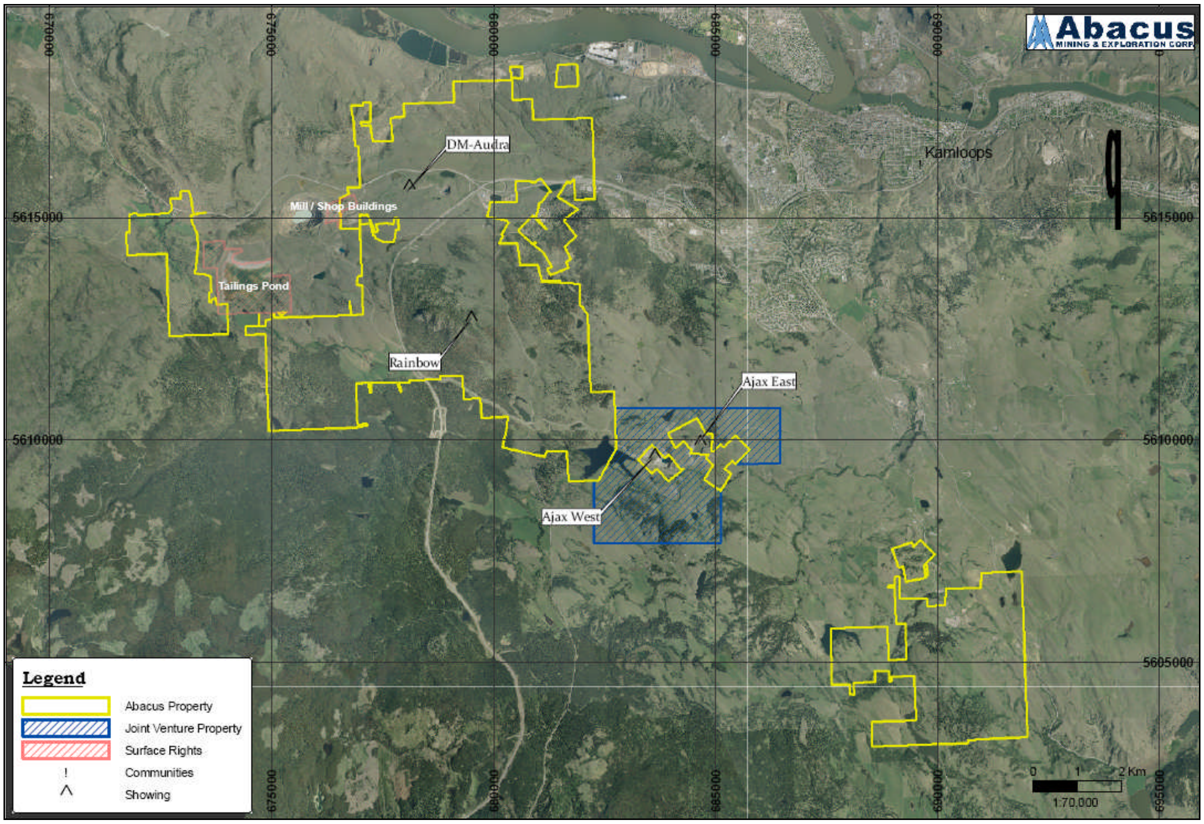
Risks

- The success of drilling, financing, and determination of favorable resource estimates and economic studies are important long-term success factors for the company.

Abacus Mining is engaged in the exploration and development of multiple smaller copper porphyry bodies in the Afton Mining Camp of British Columbia, Canada. The DM/Audra, Rainbow, and Ajax deposits have a total NI 43-101 compliant resource of 543 million pounds of copper and 267,000 ounces of gold indicated and 1.3 billion pounds of copper and 1.16 million ounces of gold inferred. The project has significant infrastructure in place, which will allow for quick development and lower costs.

Company Overview

Abacus Mining, based in Vancouver, BC, is advancing and developing multiple copper porphyry deposits in the Afton Mining Camp. The company has acquired valuable infrastructure, including a tailings pond, mill and support buildings, and associated permitting, from Teck Cominco. Abacus has a development program in place to bring the Afton Camp into production as quickly as possible, and with a $20 million dollar financing recently completed, they are financed through to feasibility.



Source: Abacus Mining and Exploration Corporation

Corporate History

In 2001, Abacus Mining and Exploration Corporation was formed from the 3:1 share consolidation of Abacus Minerals Corporation. Abacus Mining was formed in its present inception in 2002, when it optioned the Afton property and the current management team was built. In 2005, the company spun out the Niblack property on Prince of Wales Island, Alaska, into a separate public company, Niblack Mining Corp.

Afton Mining Camp

Property Overview: The 8,000 hectare Afton Mining Camp is comprised of numerous smaller porphyry targets, which the company plans to exploit using a multi pit scenario.

Ownership: The company acquired the core claims of the property from an option agreement with Teck Cominco Ltd. and Discovery Enterprises Corp in 2002. They vested their interest under the Teck Cominco deal and purchased Discovery's 30% interest in 2004. A previously held back-in right with Teck Cominco was removed when Abacus purchased Teck's infrastructure. Teck Cominco maintains a 1.5% NSR royalty on the Afton Camp, which can be purchased for $3 million.

In 2007, the company formalized an agreement with Teck Cominco and New Gold to secure access and control in the Afton Camp. Under the terms of the agreement with New Gold, Abacus gains the ability to explore areas surrounding the historic Ajax pits, with the intention to combine these pits into one large open pit operation. Abacus held the crown grants comprising the Ajax West and Ajax East pits, but New Gold holds mineral rights to the kilometer of land in between and surrounding the crown grants. Under the terms of the option agreement, Abacus must spend $2.5 million over two years and deliver a preliminary economic evaluation. Under the formal joint venture, Abacus would be the operator of, and hold 60% interest in, any open pit operation, while New Gold would be the operator of, and hold 60% interest in, any underground operation below 500 meters on their ground. **Abacus maintains 100% interest in the crown grant claims in Ajax West, Ajax East, and Monte Carlo**.

New Gold is developing the New Afton project in the region, and secured surface rights and water access from Teck Cominco. Under a three-way agreement, Abacus secured rights of access over New Gold's land, and also allows for shared use of the water pipeline. The agreement also provides New Gold with access to their New Afton project from the Trans-Canada Highway.

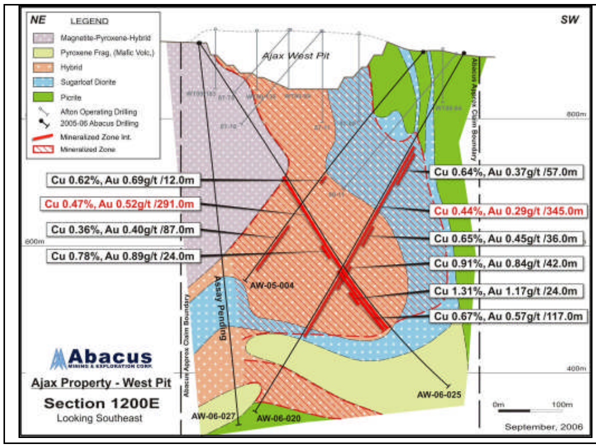
Historic Exploration/Production: There has been mining activity in the area for over 100 years, and there are three former open pit mines on the property. The largest operator was Afton Operating Corp. (now Teck Cominco). The last mine on the property was closed in 1997. The company acquired the property in 2002, and have been exploring extensively since that time. They first explored the Rainbow deposit and Coquihalla East Zone, which had excellent preliminary results by Teck Cominco but was not fully explored. In 2004, they commenced exploration on DM/Audra/Crescent Zone. Preliminary resource estimates were completed for the Rainbow and DM/Audra/Crescent Zones in 2005. In 2005, the company began exploration of the Ajax deposit.

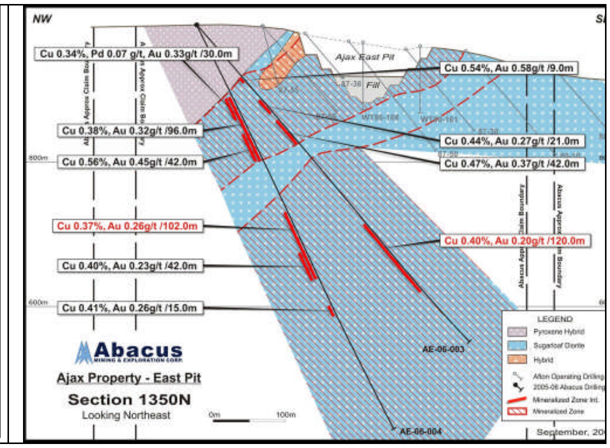
Accessibility: The project is located approximately 8.3 kilometers south of Kamloops, about 15 minutes drive along the Lac Le Jeune highway**.** The proximity of the property to Kamloops, a resource based city, provides many advantages. Kamloops is a center for mining supplies and has many qualified personnel within the mining industry who work at several mines in the region, notably Teck Cominco's Highland Valley Copper Mine.

Mining Infrastructure: In 2005, the company purchased Teck-Cominco's facilities in the Afton mining camp, including a tailings pond, water rights, a mill building, and associated support buildings. These facilities are connected to power and water. Abacus also holds rights of way and surface rights. Abacus acquired these facilities and the back-in right by issuing 18.5 million shares and paying $10 million in cash to Teck Cominco over a two year period.

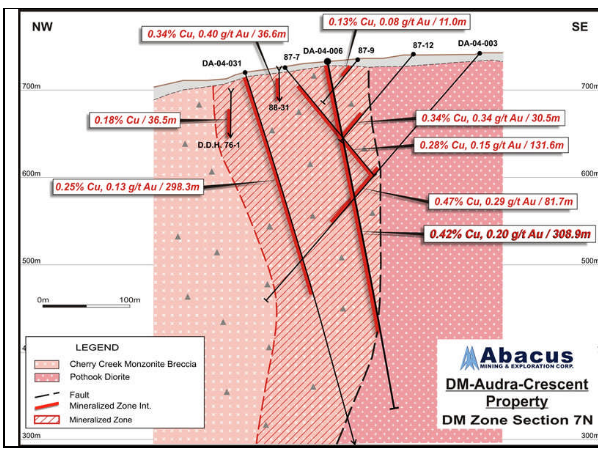
The company commissioned an independent evaluation of the existing infrastructure, which assigned a value at $33–$38 million. This report also concluded that the tailings facility could be upgraded to accommodate 250 million tons of new material. The mill building has been stripped of all processing equipment. It is believed to be suitable for a 20,000-tpd operation, with potential for expansion. **Management anticipates a 40,000-60,000-tpd operation.**

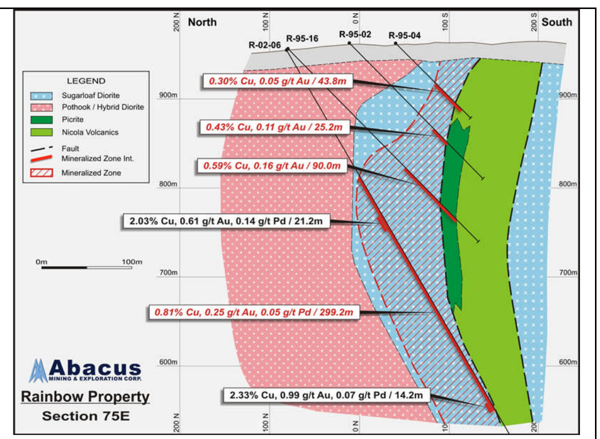
Geology and Mineralization: The Afton Mining Camp is located along the northwest trending Iron Mask Batholith, which is well known for large intrusive porphyry bodies. There are numerous porphyry bodies of variable size on the property. The company is focused on Ajax, DM/Audra/Crescent, and Rainbow.





The Ajax zone is comprised of Ajax East and Ajax West, two former open pits that the company has expanded in all directions.





The 1.2 kilometer long DM-Audra-Crescent Zone outcrops at surface, making it an attractive starter pit for the company's operations. It is also located less than 1 kilometer away from the mill building, so proximity is another advantage. It varied from 20-200 meters in thickness and has been drilled to at least 300 meters depth. It is steeply dipping. The deposit remains open along strike to the west and down dip. Management believes that the DM/Audra Zone may be suitable for underground extraction following the open pit.

The Rainbow zone is similar in configuration to the Ajax deposit, but is much smaller. It sits along the same structural trend as the Ajax, Afton, and Pothook pits. The deposit has a strike length of 500 meters, a thickness of 50-150 meters, and is steeply dipping. It has been drilled to 500 meters depth. There is potential for expansion along strike, down dip, and at depth.

Metallurgy: The Afton camp ore is readily amenable to conventional flotation, with recoveries of 90% for copper and 85% for gold. This will produce a concentrate grading 28.8% copper and 17.8% gold. Although molybdenum is present in the ore, it is inconsistent and the company has not yet determined whether it is worthwhile to recover.

Economic Studies: Pre-feasibility work is underway. The company hopes to finalize the feasibility study work by the end of 2008.

Current Status: The company is planning an extensive drilling program to commence on January 15, 2008. The first priority is to expand and join the Ajax East and West porphyries.

Resource Estimates: The company has completed NI 43-101 compliant resource estimates for the DM/Audra Zone (which includes Crescent), the Rainbow Zone, and Ajax West. Updated resource estimates bringing most of the resources for all deposits into measured and indicated categories is expected in Q3-2008.

Zone		Tonnes	Cu %	Au g/t	Copper (lbs)	Gold (oz)
DM/Audra/Crescent (0.2% Cu Cut off)	Indicated	28,500,000	0.295	0.153	185,353,595	140,195
	Inferred	15,800,000	0.281	0.124	97,880,808	62,991
Rainbow (0.2% Cu Cut off)	Indicated	47,100,000	0.345	.084	358,301,000	127,200
	Inferred	3,000,000	0.245	0.064	16,207,000	6,200
Ajax West (0.2% Cu Cut off)	Inferred	147,269,070	0.365	0.230	1,184,081,088	1,087,129

Timeline:

January – April 2008	Finish Ajax, DM/Audra, and Rainbow Drilling and receive assays
June 2008	NI 43-101 resources for whole Ajax area, updated resources for DM/Audra and Rainbow
October 2008	Preliminary Economic Assessment for Afton Camp
March 2009	Complete Feasibility Study
April 2009	Obtain Financing, begin mine construction and development
January 2011	Production

Management

The management team of Abacus is largely exploration focused. At this time, the company is conducting a formal search for a senior mining executive to lead the Abacus through development, construction, and production.

Douglas Fulcher, President
Over 33 years experience in mining exploration and project management with Pamicon Developments Ltd. Doug also has over 17 years in budgeting and financial management.

Mr. Thomas McKeever, Director, Chairman of the Board
The appointment of Mr. McKeever is a significant step in the development of Abacus as a mineral exploration and development company. Mr. McKeever has a distinguished career that spans over forty years, most of which were spent as senior management in the mining and metal trading industry. Mr. McKeever's experience and advice will benefit Abacus as it rapidly advances the development of our copper gold resources in the historical Afton mining camp.

Archibald J. Nesbitt, B. Comm., LLB - Director
Archie has over thirty-five years of experience in the development of junior resource and venture companies and has served as a director of several junior companies. Archie is highly regarded in the resource industry and brings significant financing and corporate expertise to the Company.

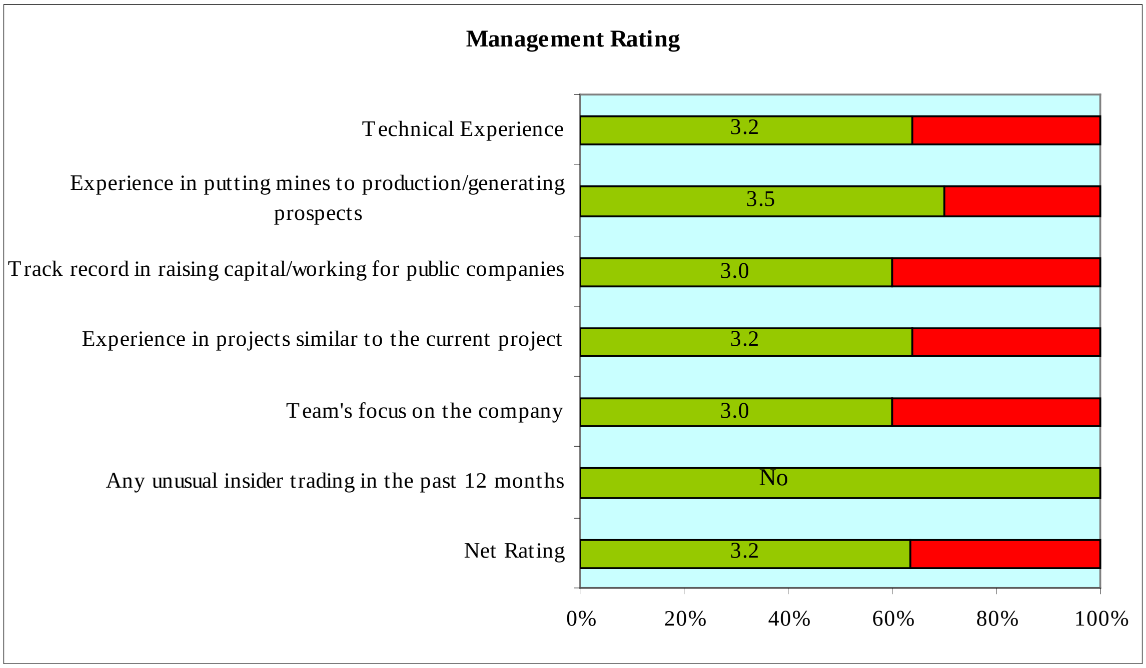
Robert Friesen, P. Geo, Director
Over 35 years as a mining and exploration geologist. Bob has extensive experience in underground and open pit mining operations, most recently with Teck Cominco at their Pogo deposit in Alaska.

Michael McInnis, P. Eng., Director
Over 30 years of experience in mineral exploration in North America and overseas. Mike is the President and CEO of Gateway Gold Corp. Past experience includes working with International Curator Resources Ltd., Pan Ocean Oils Ltd., Norcen Energy Resources and Cominco Ltd.

Paddy Nicol, MBA, CFO, Director
Ten years experience managing Abacus, including financial management, investor relations and corporate development. Paddy is also a director in Redstar Gold Corp.

Management Rating

We believe that the most important aspect of a junior mining company is its management. Therefore we have developed a management rating system as a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management's time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for Abacus (see below) was 3.2, which we have rated average.** The management team is well qualified for exploration and is working to build a management team to advance the project towards development and production.



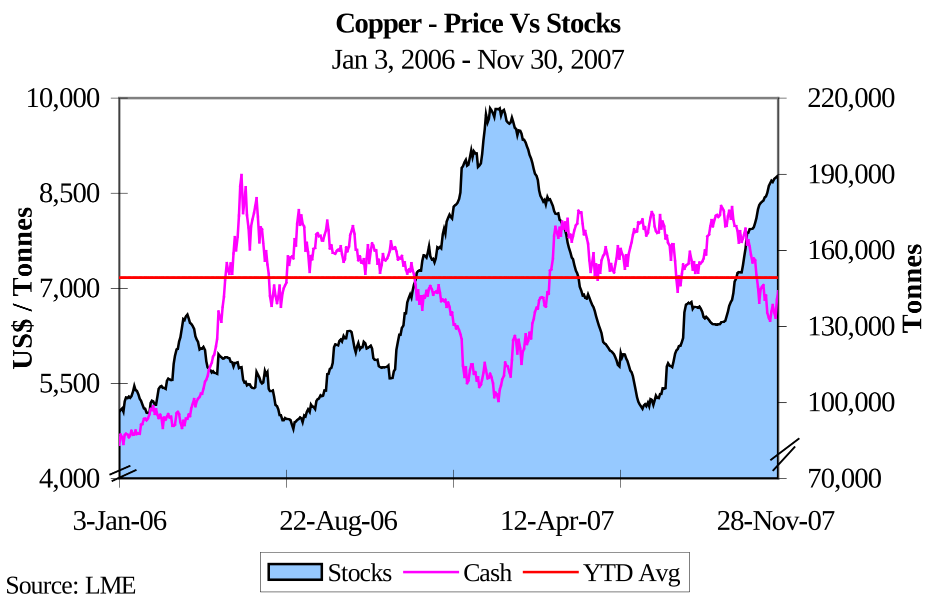
Strength of Board

The Toronto Stock Exchange recommends that the Board of Directors of every company include independent or unrelated directors who are free of any relationship or business that could materially interfere with the director's ability to act in the best interest of the company. An unrelated/independent director can be a shareholder. In this report, we introduce our strength of board rating for Abacus Mining, which uses information available from the company's annual "Management Information Circular" to ensure that the company has an independent Board of Directors, Audit Committee, and Compensation Committee. This report also identifies any non-arms length transactions and management's compensation.

Abacus's Board of Directors is made up of 6 individuals: Douglas Fulcher, John P. Nicol, Michael McInnis, Robert Friesen, Archibald Nesbitt, and Thomas McKeever. None of the directors have filed for personal bankruptcy. Thomas McKeever does not hold shares in the company. The board has two independent directors: Michael D. McInnis and Thomas A. McKeever. The Audit Committee is made up of John P. Nicol (Chair), Robert G. Friesen and Michael D. McInnis.

Outlook for Copper

As of January 3, 2008, copper was trading at US$3.07/lb, which reflected a YOY increase of 21%.



Source: LME

The recent drop in prices from its highs was due to a rapid increase in inventory levels. As of January 3, 2007, LME stocks were 198,175 tonnes, which reflects an increase of 106% since the beginning of 2006.

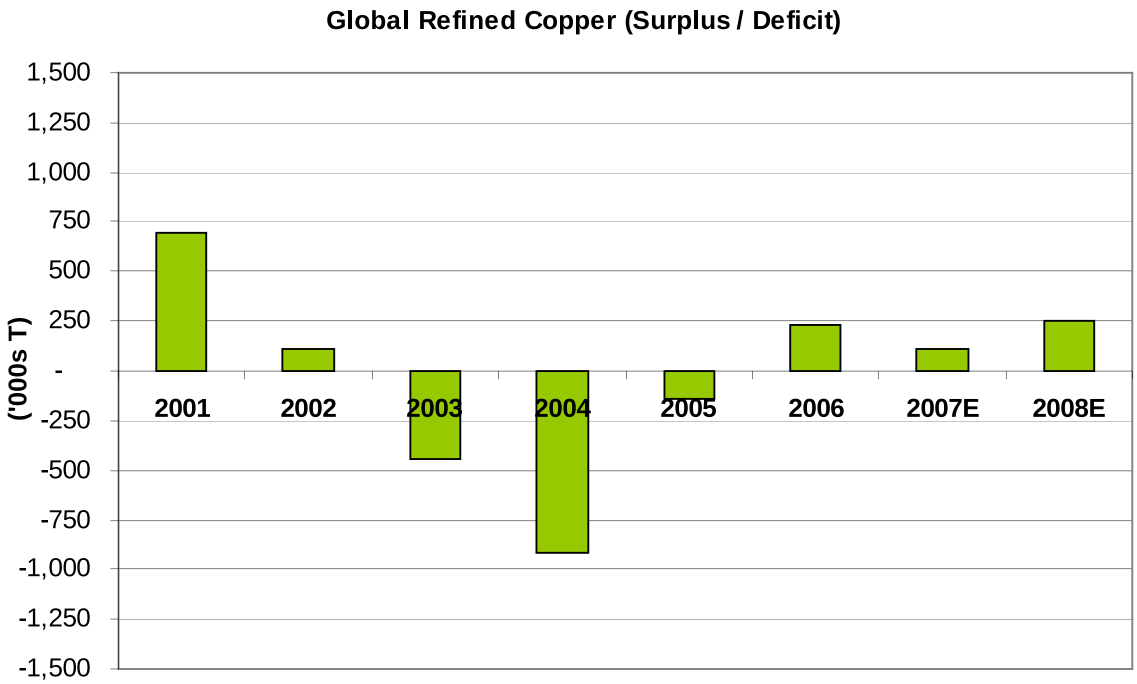
We believe that strong copper demand from China and India (both the countries combined, accounted for 25% of global copper consumption), slightly offset by lower demand growth in the U.S., led to the drop in the production surplus of refined copper from 0.23 million tonnes to 0.11 million tonnes in 2007. **The global supply surplus, however, is expected to rise by 124% YOY and reach 0.25 million tonnes in 2008.** According to the International Copper Study Group (ICSG), growth in global production is expected to outpace demand growth in 2008. It is in line with the International Monetary Fund's (IMF) global GDP growth forecast of 4.8% in 2008, down from 5.4% in 2006. As shown in the table below, global supply is expected to grow by 4.6% YOY (from 18.12 million tonnes to 18.95 million tonnes) in 2008, while demand is expected to grow by only 3.8% YOY (from 18.01 million tonnes to 18.70 million tonnes).

World Refined Copper Production and Consumption ('000T)

	2001	2002	2003	2004	2005	2006	2007E	2008E
Refined Production (S&P)	15,594	15,269	15,224	15,869	16,588	17,353	18,119	18,951
Increase (YOY)	**5.6%**	**-2.1%**	**-0.3%**	**4.2%**	**4.5%**	**4.6%**	**4.4%**	**4.6%**
Refined Usage	14,903	15,157	15,667	16,785	16,731	17,123	18,009	18,701
Increase (YOY)	**-1.5%**	**1.7%**	**3.4%**	**7.1%**	**-0.3%**	**2.3%**	**5.2%**	**3.8%**

Source: ICSG

Based on their revised forecasts, the ICSG is expecting a production surplus of 0.25 million tonnes in 2008 (up from 0.11 million tonnes in 2007).



Source: ICSG

Over the long-term, we continue to expect prices to soften from current price levels based on slower growth in global GDP, and an increase in global production levels. However, we believe that global economic growth rate forecasts are high enough to support above average historic prices for copper.

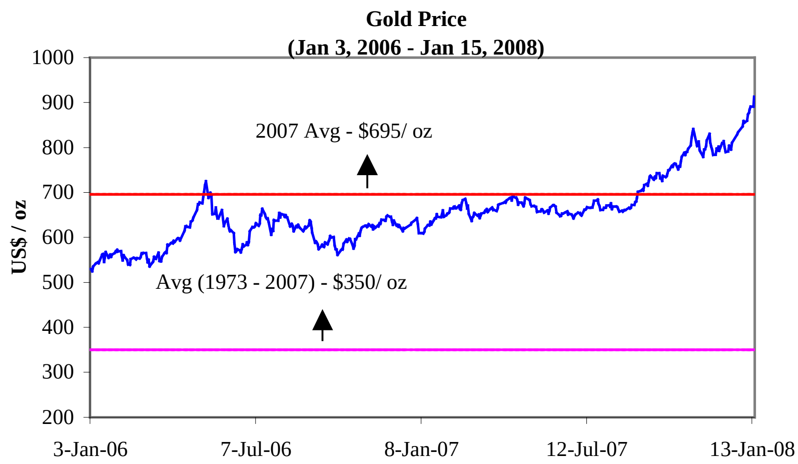
China is currently experiencing an inflation rate of 6.9% (in November 2007), its highest inflation in 11 years. As a move to counter inflation and overheating, the Chinese Central Bank recently raised interest rates for the sixth time this year. We believe rising interest rates in China will put downward pressure on growth in the Chinese economy. However, we believe, the consensus Chinese GDP growth forecast of 10.5% in 2008 is healthy enough to support global growth in copper demand.

In 2006, China and India accounted for 25% of global copper consumption, while the U.S. accounted for 13%. Demand in the U.S. is expected to soften due to a slowdown in the U.S. housing industry, which is not expected to improve before the end of 2008. According to the Copper Development Association, 40% of copper's application is in the construction industry. This implies that the U.S. housing industry accounts for less than 5.2% of global consumption. Therefore, we believe, lower demand in the U.S., due to a slowdown in the U.S. housing industry, will only slightly offset global demand growth. Also, the recent rate cuts by the U.S. Federal Reserve to tackle the ongoing credit crunch problems, we believe, might help sustain U.S. economic growth, and demand for copper *(The U.S Federal Reserve recently cut rates by 100 basis points to 4.25% in three meetings, the first cut in over four years.).*

The average forecasts for copper prices are US$3.00/lb in 2008, and US$2.50/lb in 2009, which are significantly higher than the historical average price of copper. Based on an expected increase in supply surplus moving forward, we have lowered our long-term copper price forecast from US$2/lb to US$1.75/lb.

Outlook for Gold

The chart below shows gold prices since January 2006. Gold prices are currently trading at their record highs, and as of January 15, 2007, were trading at US$913, which reflects a YOY increase of 46%.



Source: KITCO

Although gold prices have risen considerably in the second half of 2007, and early 2008, and are currently trading at record highs, we have maintained our positive outlook on gold due to the following macro economic conditions:

The U.S. dollar is expected to depreciate with respect to other major global currencies, based on an expected slowdown in the U.S. economy, and relatively lower real interest rates in the U.S., compared to other major countries in the world.

The U.S. housing industry is not expected to recover before the end of 2008, and recently, the U.S. economy reported job losses for the first time in four years. Both these factors further signal a slowdown in the U.S. economy. Even though the U.S. Federal Reserve cut interest rates from 5.25% to 4.25% in their last three meetings, we expect to see further rate cuts in the first half of 2008 to tackle the ongoing credit crunch problems and the softening U.S. housing industry. The rate cuts in turn will add to inflationary pressures and simultaneously depreciate the value of the U.S. dollar, which we believe is an ideal condition for gold prices to move higher.

We have also noticed a positive correlation between gold and oil prices, in times of high oil prices. High oil prices create inflationary expectations among investors and lead them to drift towards gold. Oil is currently trading just above US$90/bbl, and prices are expected to stay above $80/bbl through 2010, which we believe will also have a positive effect on the demand for gold.

Therefore, based on a forecasted depreciation in the U.S. dollar, higher inflationary expectations, relatively lower U.S. real interest rates, and high oil prices, we continue to be bullish on gold prices. Although we do not expect prices to move up as fast as they did in the past few months, we expect prices to gradually move up, as the U.S. economy moves closer to recession. The average revised forecasts for gold prices are US$825/oz in 2008, and US$860/oz in 2009. We have used a long-term gold price forecast of US$600/oz in our valuation models.

Financials

Operations: At the end of September 2007, the company had cash and working capital of $13.85 million and $13.10 million, respectively. AME had a net loss of $0.94 million in FY2006, compared to a net loss of $1.09 million in FY2005. The company had a net loss of $0.94 million for the 9-month period ended September 30, 2007, compared to a net loss of $0.87 million during the same period in the previous year. For the 3-month period ended September 31, 2007, the company had a net loss of $0.13 million, compared to a net loss of $0.14 million during the same period in the previous year.

During the 9-month period ended September 31, 2007, the company spent $9.82 million on acquisition and exploration costs related to its mineral properties. We estimate the company had a burn rate of $1.03 million per month, and $0.94 million per month for the 9-month period ended September 31, 2007, and the 3-month period ended September 31, 2007, respectively. The table below shows the company's cash position and liquidity ratios.

	2006	2007 (9 mo)
Working Capital	4,850,454	13,099,021
Current Ratio	14.0	12.0
LT Debt / Assets	-	-
Cash from financing activities	13,655,850	18,744,171
Burn Rate	(871,413)	(1,029,428)

Recent Financing: On June 7, 2007, the company closed a brokered private placement. The company issued 13,645,000 non flow-through units at a price of $0.70 and up to 11,250,000 flow-through units at a price of $0.80. The gross proceeds are $18,551,500. Each unit consists of one common share and one-half transferable common share purchase warrant. Each flow-through unit consists of one flow-through common share and one-half warrant. Each warrant entitles the holder to purchase one non-flow through common share until December 6, 2008 at a price of $1.25. On a non-brokered basis, the company concurrently issued 443,700 units at a price of $0.70 and 595,750 flow-through units at a price of $0.80 for gross proceeds of $787,190. Each unit consists of one common share and one-half common share purchase warrant. Each flow-through unit consists of one common share issued on a flow-through basis and one-half common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $1.25 per share until January 3, 2009.

Stock Options and Warrants: At the end of September 2007, the company had about 27.50

million warrants outstanding with exercise prices ranging between $0.75 and $1.25, and expiry dates between February 2008 and January 2009. The company also had stock options that allow directors and employees to acquire 7.82 million shares of the company with exercise prices ranging between $0.08 and $0.90, and expiry dates between April 2008 and March 2012. In addition, AME had agents options for 2,489,500 units exercisable at $0.85 per unit with an expiry date of December 6, 2008, and 56,870 units exercisable at $0.85 per unit with an expiry date of January 3, 2009.

Conclusion: As at September 30, 2007, the company had $13.85 million in cash. According to management, the company has a budget of about $10 million in capital expenditures for the next 12 months. Based on a burn rate of $0.94 million per month, we believe the company is in a good cash position to fund its exploration activities and working capital in the next 12 months.

Valuation

We valued the company based on the currently known resource estimates for the DM/Audra Zone (which includes Crescent), the Rainbow Zone, and Ajax West. We have used all indicated resources, but only half the inferred resource estimates, for conservatism.

Our real options valuation model gave a fair value estimate of $72.65 million, or $0.66 per share.

Real Options Valuation					
Commodity	**Tonnes**	**Grade**	**Contained Metal**	**Price (US$)**	**Value (C$)**
Copper	158,634,535	0.34%	1,193,163,924	1.75	2,041,056,038
Gold	158,634,535	0.17	846,479	600.00	467,256,464
				Total Value	$2,508,312,502
Cu	90%			Operating Costs	$1,372,393,766
Ag	85%			**Net Value**	**$1,135,918,736**
Inputs relating the underlying asset					
Estd. Mineral Resources (tonnes)					158,634,535
Estd.Value of Minerals if extracted today					$785,590,180
Annualized Standard Deviation of Mineral prices					30%
Capital Investment					$650,000,000
Estd. Mine Life (years)					9
Riskfree Rate					4.26%
Output					
Stock Price	$785,590,180			T.Bond rate	4.30%
Strike Price	$650,000,000			Variance	0.087
Expiration (in years)	9			Annualized div yield	11.11%
d1 =	-0.04			d2 =	-0.92
N(d1) =	0.49			N(d2) =	0.18
Value of Option	$61,548,824				
Working Capital	$11,103,520				
Debt	-				
Net Value	72,652,344				
No of outstanding shares	109,668,834				
Value per share	**$0.66**				

Our relative valuation on the company, based on the average ratio of enterprise value (EV) to resources of its peers, is $56 million, or $0.51 per share.

Comparables Valuation Model

	Company	SYM	Price	Enterprise Value (EV)	Resources - Cu eq. (in billion lbs)	EV / Resources
1	Antares Minerals Inc.	ANM	$3.80	$143,717,641	2.65	$0.054
2	Chariot Resources	CHD	$0.83	$234,621,933	4.38	$0.054
3	Norsemont Mining Inc.	NOM	$2.72	$74,881,121	2.20	$0.034
4	Tyler Resources	TYS	$1.55	$183,262,579	7.80	$0.024
5	Abacus Mining and Exploration Corp.	AME	$0.38	$30,570,637	1.39	$0.022
6	Western Copper Corp.	WRN	$0.92	$40,623,233	6.37	$0.006
				Average EV / Resources		**$0.032**
				Fair Value		**$0.51**

1. Stock prices and Market Cap are as of January 16, 2008
2. Enterprise Value = Market Capitalization + Debt - Cash
3. Resource Estimates = Measured and Indicated, and half of Inferred resources

All the comparables that we have selected for this analysis focus on copper porphyry projects. As shown in the above table, the company is undervalued compared to four of the five comparables.

Conclusions & Rating

Abacus's Afton Camp project is well suited for accessibility and infrastructure, which is a big advantage for the production potential of the project. An extensive resource expansion program is underway, and recent deals with Teck Cominco and New Gold improve the outlook for the project.

Based on our valuation models and analysis of the company's project, we initiate coverage on AME with a BUY rating, and a fair value estimate of $0.60 per share.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- Abacus's success is dependent on the management and development of the Afton Camp Project.
- The success of expansion, increasing favorable resource estimates, and economic project studies are very important for the company's future prospects.
- The value of the company is dependent on commodity prices.
- The entire industry is facing cost overruns that could impact the economics of the Afton Camp Project.

We rate the shares Risk 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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