

### Acceleware Corp. (TSX-V: AXE) – Revenues exceed expectations in Q2-2007; AXE gets more exposure through NVIDIA's Tesla

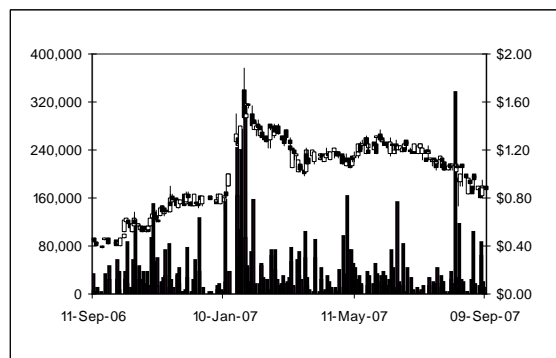
Sector/Industry: Technology

[www.acceleware.com](http://www.acceleware.com)

#### Market Data (as of September 10, 2007)

Current Price	C\$0.88
Fair Value	C\$3.00
Rating*	BUY
Risk*	4 (Speculative)
52 Week Range	C\$0.39 -C\$1.88
Shares O/S	34,956,331
Market Cap	C\$30.76 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.06
YoY Return	100%
YoY TSX-V	4.8%

\*see back of report for rating and risk definitions



#### Q2-2007 Highlights

- In June 2007, NVIDIA Corporation (NASDAQ: NVDA), launched a new class of processors, NVIDIA® Tesla™, for the High Performance Computing (HPC) market. It signals the potentially important role of graphic processors for computing (GPU computing) in the HPC market going forward.
- Revenues in Q2-2007 increased by 74.1% YOY, from \$0.31 million to \$0.54 million; the company's highest revenues in a quarter to date. We have raised our revenue forecasts for FY2007 and FY2008, from \$1.39 million and \$3.28 million, respectively, to \$1.60 million and \$3.66 million.
- Gross margins were inline with estimates, however net margins dropped due to increases in general and administrative (G&A) and research and development (R&D) expenses.
- Although higher R&D and G&A costs will affect the company's cash flows in the short-term, we believe, increased investment in R&D, additional employees, and sales and marketing, will translate into higher revenues and growth going forward.
- In August 2007, AXE announced that \$1.45 million was invested in asset-backed commercial paper. However, AXE continues to be in a solid cash position, and we believe that in the worst case, they would still recover \$0.90 on the dollar.
- AXE's share price has dropped by 27% since our last update on June 12, 2007. We have maintained our positive outlook on the company, and we believe it is a good opportunity for investors to buy AXE shares at these levels.

#### Financial Summary (YE Dec 31)

(C\$)	2006 (17 mo)	2007 E	2008E
Revenue	1,030,115	1,602,171	3,656,877
EBITDA	(2,216,812)	(5,625,222)	(5,561,815)
Net Income	(2,267,738)	(5,577,692)	(5,578,686)
EPS	(0.13)	(0.16)	(0.15)
Cash	626,996	5,931,136	355,449
Debt	-	-	-
Assets	1,817,544	8,283,892	4,749,619
ROE	-112.81%	-72.60%	-165.13%

Acceleware Corp. (TSXV: AXE), based in Calgary, Alberta, develops, manufactures and markets special purpose software/hardware accelerators used to reduce engineering design simulation and data processing run times. According to AXE, simulations that take 5 - 8 hours can be completed within just 15-30 minutes using the company's accelerators. The company has experienced significant growth in product distribution since being founded in February 2004.

**Revenues exceed expectations; Records highest revenues in a quarter to date**

Revenues in Q2-2007 increased 74.1% YOY, from \$0.31 million to \$0.54 million; the company's highest revenues in a quarter to date. Q2-2007 was the third consecutive quarter of QOQ revenue growth. Revenues in the first six months of FY2007 (ended June 2007) were \$0.87 million, up 33.9%, compared to revenues in the 11-month period ended June 2006. Deferred revenues at the end of Q2-2007 were \$0.16 million, compared to \$0.12 million at the end of FY2006, a YTD increase of 25.9%. The table below shows revenues in Q2-2007, and the six-month period in FY2007, along with their comparable periods.

(in C\$)	Q2-2006	Q2-2007	2006 (11 mo)	2007 (6 mo)	2007E	2008E
Revenues	309,292	538,565	650,530	871,229	1,602,171	3,656,877
Growth		74.1%		33.9%		

Prior to Q2-2007, most of the company's revenues (96% in Q1-2007) were generated, primarily, by only two of seven channel partners. However, in Q2-2007, revenues came from five channel partners, which is very encouraging.

In June 2007, the company released their next generation ClusterInABox™ Quad, the company's fastest solution to date. The new solution is capable of increasing simulation speed by 35 times (their fastest product before that, the ClusterInABox™ Dual, was capable of increasing simulation speed by 20 times). The ClusterInABox™ Quad uses four accelerator boards (6 GB of on-board memory) and can be used for simulations of up to 200 million cells. The ClusterInABox™ Quad, which is priced relatively more than the previous versions, accounted for a portion of the company's revenues in Q2-2007.

AXE is planning to enter its second market, the seismic data processing market, in Q4-2007. Management indicated that the highly anticipated launch of this new set of products is on schedule. The company has already formed an initial partnership in the seismic market. AXE plans to move into other design simulation markets, including biomedical imaging, reservoir simulation, and financial computations in the future.

**As Q2-2007 revenues were higher than expected, we have increased our revenue forecasts for FY2007 and FY2008, from \$1.39 million and \$3.28 million, respectively, to \$1.60 million and \$3.66 million, respectively.**

**NVIDIA launches a new class of processors for the HPC market**

In June 2007, NVIDIA Corporation, the world's largest graphic chip maker, and also AXE's largest shareholder (13% ownership), launched a new class of processors, NVIDIA® Tesla™, for the High Performance Computing (HPC) market. Under the NVIDIA® Tesla™ brand, NVIDIA will offer a family of GPU computing products, which will enable workstations to function as supercomputers. Early this year, the company had released NVIDIA® CUDA™, a platform which enables professionals to program (using the standard C language) graphic processing units (GPUs) to solve complex computational problems.

Although NVIDIA's Tesla is used to speed up processes, they do not directly compete with AXE's accelerators, because AXE's products are specialized products, targeting niche markets (currently targeting the electromagnetic simulation market). We believe the launch

of NVIDIA® Tesla™ and NVIDIA® CUDA™, reflects the potentially important role of GPU computing in the HPC market going forward. *Information Week* mentioned the use of graphics processors for computing as one of the Top five disruptive technologies in 2007. Market awareness and adoption are very important success factors for AXE, and we believe, NVIDIA's new set of products targeting the HPC market will give tremendous exposure to AXE's products. AXE, being a global leader in utilizing GPUs for non-graphics applications like simulation solutions, is one of the early movers in this space, and we believe it will benefit from the advancement in GPU computing.

***Gross Margins were in line with estimates***

Gross margins in Q2-2007 were 50.6%, compared to 40.8% in Q2-2006. For the six-month period in FY2007, the company recorded gross margins of 51.4%, compared to 47.8% in the 11-month period ended June 2006. We have maintained our gross margins forecasts for FY2007 and FY2008 at 50%.

The table below shows the company's margins in Q2-2007, and the first six months of FY2007, along with their comparable periods.

Margins (%)	Q2-2006	Q2-2007	2006 (11 mo)	2007 (6 mo)	2007E	2008E
Gross Margin	40.8%	50.6%	47.8%	51.4%	50.0%	50.0%
EBITDA Margin	-113.9%	-309.2%	-152.3%	-324.2%	-351.1%	-152.1%
EBIT Margin	-116.2%	-316.1%	-154.8%	-334.3%	-359.6%	-158.2%
Net Margin	-115.5%	-305.4%	-154.0%	-323.8%	-348.1%	-152.6%
G&A/Revenues	87.6%	277.3%	125.1%	296.2%	319.6%	161.0%
R&D/ Revenues	67.2%	82.5%	75.0%	79.3%	81.5%	41.1%

***EBITDA margins dropped due to higher G&A and R&D costs***

As shown in the table above, except gross margins, all other margins dropped due to significant increases in research and development (R&D), and general and administrative (G&A) costs. The company recorded EBITDA of -\$1.67 million in Q2-2007, compared to -\$0.35 million in Q2-2006. In the six month period in FY2007, the company recorded EBITDA of -\$2.82 million, compared to -\$0.99 million in the 11-month period ended June 2006.

**R & D costs increased by 113.9% YOY in Q2-2007:** In the first six months of FY2007, the company recorded R&D expenses of \$0.69 million (79.3% of sales), compared to \$0.49 million (75.0% of sales) in the 11 month period ended June 2006. The increase in R&D costs was attributed to increased costs related to the development of AXE's existing and new hardware accelerators, and integration of the products with channel partners.

**G & A costs increased by 451.4% YOY in Q2-2007:** G&A expenses in the first six months of FY2007 were \$2.58 million (296.2% of sales), compared to \$0.81 million (125.1% of sales) in the 11 month period ended June 2006. G&A expenses increased due to an increase in employees (as of June 30, 2007, the number of employees increased from 19 to 46 YOY), sales and marketing activities, and stock based compensation. The company moved to new facilities in Q2-2007, which also contributed to the increase in G&A costs. AXE expects to add more employees for the electromagnetic (EM), oil and gas, and biomedical imaging sectors, during the rest of the year. Therefore, we expect, G&A costs as a percentage of sales to stay high in FY2007.

Although higher R&D and G&A costs will affect the company's cash flows in the short-term, we believe, increased investment in R&D, additional employees, and sales and marketing, will translate into increased revenues and growth going forward. For an early stage growth company like AXE, an increase in costs as a percentage of sales is not uncommon. Therefore, we are not concerned about the higher G&A and R&D costs, at this time. Management is spending money to achieve its long term growth objectives.

We have raised our forecasts for G&A and R&D expenses in FY2007, and FY2008, but have maintained our long-term estimates of total costs as a percentage of revenues.

***Net loss increased due to higher costs***

The company recorded a net loss of \$1.64 million (EPS: -\$0.05) in Q2-2007, compared to a net loss of \$0.36 million (EPS: -\$0.02) in Q2-2006. For the six month period, the company recorded a net loss of \$2.82 million (EPS: -\$0.09), compared to \$1.00 million (EPS: -\$0.07) in the 11 month period ended June 2006.

We have lowered our EPS forecasts for FY2007 and FY2008, due to an increases in G&A and R&D cost estimates, offset by an increase in revenue forecasts. Our revised forecasts are, net loss of \$5.62 million (EPS: -\$0.16) in FY2007, and \$5.68 million (EPS: -\$0.16) in FY2008, versus our previous forecasts of net losses of \$3.41 million (EPS: -\$0.10) and \$3.32 million (EPS: -\$0.09), respectively. Note that we have raised our long-term EPS forecasts due to higher revenue forecasts.

***Cash Flows***

AXE spent \$3.15 million to fund their operating activities, and \$0.86 million to fund investing activities (capital asset additions) in the first six months of FY2007. These expenditures were funded by two private placements (and an exercise of warrants), totaling \$11.13 million, in early 2007. We have maintained our estimates for CAPEX in FY2007 and FY2008, at \$1.0 million.

***Cash and Liquidity Position***

At the end of Q2-2007, the company had cash and working capital of \$7.75 million and \$8.80 million, respectively, compared to \$0.63 million and \$1.06 million, at the end of FY2006. The company's cash position improved due to the two private placements completed in early 2007, offset by cash spent for operations and investing activities in the first six months of FY2007. The table below shows the company's current cash and liquidity position, compared to previous periods.

<b>Liquidity Analysis</b>	<b>2006</b>	<b>Q2-2007</b>	<b>2007E</b>	<b>2008E</b>
Current Ratio	3.66	14.73	11.75	2.01
Working Capital	1,060,808	8,801,040	6,460,760	1,378,203
Debt / Capital	-	-	-	-
Interest Coverage Ratio	-	-	-	-

The current ratio and working capital increased due to an improvement in AXE's cash position. The company continues to be debt-free.

**Investment in ABCP:** In August 2007, the company announced that \$1.45 million of its cash equivalents are invested in asset-backed commercial paper (ABCP), Structured Investment Trust III, Series A ("SIT"), administered by Coventree Capital Group Inc. DBRS

had given these a credit rating of R-1 High (the highest rating available for short-term commercial paper).

Although there are uncertainties regarding the possibility of liquidating these assets, we expect that the company will be able to liquidate 90% of the invested capital shortly after a discussion with management. AXE continues to be in a good cash position, even after excluding the cash equivalents invested in ABCP, and we believe the company has sufficient cash on hand to fund its capital expenditures.

### **Stock Options and Warrants**

At the end of June 2007, the company had 3.73 million stock options outstanding (2.35 million are currently ‘in-the-money’), with a weighted average exercise price of \$0.72 per share, and maturity period of 4.13 years. The company also had 6.81 million warrants (1.15 million are currently ‘in-of-the-money’) outstanding with a weighted average exercise price of \$1.51 per share, and maturity period of 1.32 years.

### **Valuation**

Our revised Discounted Cash Flow (DCF) valuation on AXE is \$3.01 per share (up from \$2.97 per share). Our valuation increased due to an increase in our revenue forecasts, offset by increases in short-term G&A and R&D costs, and our estimate of diluted shares.

<b>DCF Valuation - Acceleware Inc.</b>									
<b>(in C\$)</b>									
	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Terminal</b>
<b>FFO</b>	(4,972)	(4,886)	(3,932)	(1,835)	1,067	6,577	14,569	16,021	23,100
<b>WC Investment</b>	49	(493)	755	(101)	(131)	(215)	(292)	(286)	(400)
<b>CFO</b>	(4,922)	(5,379)	(3,177)	(1,936)	936	6,361	14,277	15,734	22,700
<b>CAPEX</b>	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
<b>FCF</b>	(5,922)	(6,379)	(4,177)	(2,936)	(64)	5,361	13,277	14,734	21,700
<b>PV</b>	(5,596)	(5,382)	(3,147)	(1,975)	(38)	2,875	6,356	6,298	103,058
<b>Discount Rate</b>	12%								
<b>Growth Rate</b>	3%								
<b>Net Present Value</b>	\$102,449								
<b>Debt</b>	-								
<b>Cash</b>	\$7,749								
<b>Total Value</b>	\$110,198								
<b>No. of shares (dil)</b>	36,592,257								
<b>Fair value per share</b>	<b>\$3.01</b>								

### **Rating**

The solid growth in revenues in Q2-2007 was very encouraging. Although we lowered our EPS forecasts for FY2007 and FY2008 (due to higher costs), we have raised our short-term and long-term revenue forecasts, based on our continued positive outlook on the company. **Based on our revised valuation, and review of the latest financials, we reiterate our BUY rating, and maintain our fair value estimate on AXE at \$3.00 per share. Our fair value estimate reflects an upside potential of 241% from current price levels.**

As mentioned earlier, AXE’s share price has dropped by 27% since our last update on June 12, 2007. We believe the drop in prices was not due to any change in the company’s fundamentals, but due to increased market volatility, and panic in the market to liquidate investments. Therefore, we believe it is a good opportunity for investors to buy AXE shares at these price levels.

**Risks**

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

- HPC market is highly competitive and barriers to entry to the market are very low.
- Entry into the EM market was relatively easier for the company, as management has had good relationships with the industry for the past two decades. However, the company's ability to enter into new design simulation markets will depend heavily on the company's ability to attract potential partners and timing of entry into new markets.
- AXE will be adversely affected if it is not able to cope with changes in technology. Keep in mind that the HPC market has experienced rapid technological changes in the past 10 years.
- Like all other companies, the overall performance of the company depends heavily on market growth.

## Appendix

### Acceleware Corp.- Income Statement (in C\$)

	2006 17 mo	2007E	2008E
<b>Revenues</b>			
Product Sales	886,714	1,456,519	3,324,434
Maintenance	87,401	145,652	332,443
Consulting	56,000	-	-
	<b>1,030,115</b>	<b>1,602,171</b>	<b>3,656,877</b>
<b>Expenses</b>			
Costs of Product Sales	519,547	801,085	1,828,439
General and Administrative	1,987,379	5,120,424	5,888,487
Research and Development	740,001	1,305,884	1,501,767
	<b>3,246,927</b>	<b>7,227,393</b>	<b>9,218,692</b>
<b>EBITDA</b>	(2,216,812)	(5,625,222)	(5,561,815)
Amortization	73,111	135,813	222,232
<b>EBIT</b>	<b>(2,289,923)</b>	<b>(5,761,036)</b>	<b>(5,784,047)</b>
Interest	22,185	183,344	205,361
Taxes		-	-
<b>Income/Loss</b>	<b>(2,267,738)</b>	<b>(5,577,692)</b>	<b>(5,578,686)</b>
Earnings/Loss per Share	(0.13)	(0.16)	(0.15)

**Acceleware Corp.- Balance Sheet**

(in C\$)

	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
<b>Assets</b>			
<b>Current</b>			
Cash	626,996	5,931,136	355,449
Short-term Investments (ABCP)		145,103	145,103
Accounts Receivables	494,131	640,868	1,462,751
Inventory	324,204	320,434	731,375
Prepaid Expenses	14,081	24,033	54,853
	<b>1,459,412</b>	<b>7,061,574</b>	<b>2,749,532</b>
Deferred Charges	-	-	-
Property and Equipment	358,132	1,222,319	2,000,087
Intangible Assets			
	<b>1,817,544</b>	<b>8,283,892</b>	<b>4,749,619</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current</b>			
Accounts Payables and Accrued Liabilities	274,281	360,488	822,797
Deferred Revenue	124,323	240,326	548,532
	<b>398,604</b>	<b>600,814</b>	<b>1,371,329</b>
<b>Shareholders' Equity</b>			
Share Capital	3,669,872	15,041,380	15,844,956
Contributed Surplus	341,439	811,761	1,282,083
Deficit	(2,592,371)	(8,170,063)	(13,748,749)
	<b>1,418,940</b>	<b>7,683,078</b>	<b>3,378,290</b>
<b>Total Liabilities &amp; S.E</b>	<b>1,817,544</b>	<b>8,283,892</b>	<b>4,749,619</b>

**Acceleware Corp.- Statement of Cash Flows  
(in C\$)**

	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
<b>Cash Flows from Operating Activities</b>	<b>17 mo</b>		
<b>Loss for the Period</b>	(2,267,738)	(5,577,692)	(5,578,686)
Items not Involving Cash:			
Amortization	73,111	135,813	222,232
Write-Down of Intangible Asset	3,567		
Stock-Based Compensation	190,511	470,322	470,322
	<b>(2,000,549)</b>	<b>(4,971,556)</b>	<b>(4,886,132)</b>
<b>Changes in Non-Cash Working Capital Items:</b>			
Accounts Receivable	(398,003)	(146,737)	(821,883)
Prepaid Expenses	(14,081)	(9,952)	(30,821)
Inventory	(324,204)	3,770	(410,941)
Deferred Charges	-	-	-
Accounts Payables and Accrued Liabilities	248,578	86,207	462,309
Deferred Revenue	124,323	116,003	308,206
	<b>(363,387)</b>	<b>49,291</b>	<b>(493,130)</b>
	<b>(2,363,936)</b>	<b>(4,922,265)</b>	<b>(5,379,262)</b>
<b>Cash Flows from Financing Activities</b>			
Issuance of Common Shares	2,452,011	11,131,508	
Issuance of Warrants and Options		240,000	803,576
	<b>2,452,011</b>	<b>11,371,508</b>	<b>803,576</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of Property and Equipment	(416,908)	(1,000,000)	(1,000,000)
Net Monetary Assets Acquired	716,736		
	<b>299,828</b>	<b>(1,000,000)</b>	<b>(1,000,000)</b>
<b>Increase in Cash</b>	<b>387,903</b>	<b>5,449,243</b>	<b>(5,575,686)</b>
Cash, Beginning of Period	239,093	626,996	6,076,239
<b>Cash, End of Period</b>	<b>626,996</b>	<b>6,076,239</b>	<b>500,552</b>

**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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