

### Broadview Press Inc. (TSX-V: BDP) – Sells 36% of revenues for \$1.0 - \$1.2 million; Market cap is only \$1.03 million

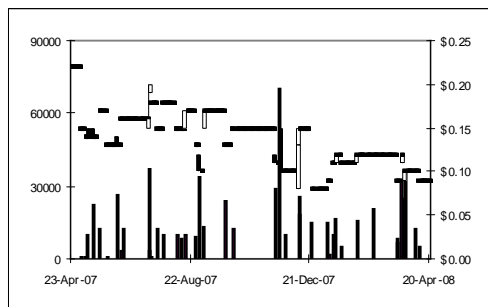
Sector/Industry: Publishing

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

#### Market Data (as of April 23, 2008)

Current Price	C\$0.085
Fair Value	C\$0.25
Rating*	BUY
Risk*	3 (Average)
52 Week Range	C\$0.08 - C\$0.22
Shares O/S	12,118,607
Market Cap	C\$1.03 million
Current Yield	N/A
P/E	N/A
P/B	0.59
YoY Return	-61.4%
YoY TSX-V	-23.7%

\*see back of report for rating and risk definitions



#### FY2007 Highlights

- In March 2008, BDP announced that they signed a binding letter of intent with the University of Toronto Press (UTP) to sell their lists in the Social Sciences for \$1.0 - \$1.2 million. The Social Sciences lists accounted for 36% of revenues (\$1.56 million) in FY2007.
- The transaction price of \$1.0 - \$1.2 million reflect a P/S (price to sales) of 0.64 – 0.71. Considering that the industry average ratio for the publishing industry is about 2.1, we believe the valuation is low for BDP. The main benefits to this transaction are that it allows the company to focus on its core revenue areas (English and Philosophy), lowers investment and marketing costs on new/existing titles and improves the balance sheet.
- BDP is expecting to receive \$1.0 - \$1.2 million from this transaction. Adding this amount to the company's working capital gives us \$2.64 - \$2.84 million. However, BDP's market capitalization is only \$1.03 million, which indicates that the company is clearly undervalued (i.e. trading below working capital).
- BDP is planning to focus on some very interesting projects in 2008, including publishing spin-offs and new editions of their existing titles, and selling books from their new website.
- Revenues and operating margins improved YOY in FY2007 as expected. Revenues increased by 6.1% YOY, from \$4.09 million to \$4.34 million. Actual results were only 0.7% lower than our estimate of \$4.37 million.

#### Key Financial Data (Fiscal Year-End December 31)

(C\$)	2005	2006	2007	2008E	2009E
Total Revenue	3,832,859	4,289,124	4,596,068	3,255,854	3,301,709
EBITDA Margin	7.3%	1.62%	4.7%	3.5%	8.0%
EBIT to Interest	3.64	0.06	1.35	0.44	3.12
Net Margin	2.7%	-1.1%	-1.3%	-1.1%	2.8%
Net Income	97,850	(46,555)	(56,890)	(33,630)	87,119
EPS	0.01	(0.00)	(0.00)	(0.00)	0.01
Current Ratio	1.96	1.65	1.69	2.56	2.73
Debt to Capital	31.1%	44.5%	40.4%	32.2%	28.3%
ROE	6.1%	-3.0%	-3.2%	-1.9%	4.8%
ROIC	9.6%	0.2%	5.2%	1.6%	7.8%

*Broadview Press Inc. is an independent publisher focusing mainly on the academic textbook market. The company publishes textbooks primarily on the social sciences and humanities. The company's revenues are derived almost equally from domestic (Canadian) sales and export sales (mainly to the United States).*

***Sells Social Sciences Lists for \$1.0 - \$1.2 million***

On March 19, 2008, BDP announced that they have signed a binding letter of intent with the University of Toronto Press (UTP), where UTP will acquire BDP's lists in the Social Sciences for \$1.0 - \$1.2 million. The lists in the Social Sciences accounted for about 36% (\$1.56 million from 235 titles) of BDP's total revenues in FY2007. The transaction is expected to be completed by May 1, 2008. Both companies' boards have approved the transaction. UTP intends to start a new textbook division with the newly acquired assets.

As a result of the proposed transaction, BDP will lose six employees to UTP, including their current President and CEO, Michael Harrison, and their COO, Fraser Seely. The other four employees are associated with the publishing and marketing of the lists in the Social Sciences. Don LePan, the founder of the company, and President of Broadview from its founding in 1985, through to 2005, will reassume his position.

The purchase price of \$1.0 - \$1.2 million reflects a P/S (price to sales) of 0.64 – 0.71. Considering that the industry average ratio for the publishing industry is about 2.1, we believe the valuation is low for BDP. *(Note that we believe the industry average is lower than 2.1 for Canadian publishers primarily because there are relatively fewer players in Canada. However, we believe the average multiples should be well above that of BDP's current transaction.)* We attribute the low valuation to the following:

- BDP's current market capitalization is \$1.03 million. Therefore, we believe, the transaction price of the company's lists in the Social Sciences was based on BDP's current market value and not its fair value.
- Fewer potential buyers in North America.

Prior to the company's decision to sell its Social Sciences lists, BDP's publishing program was focusing on six disciplines – English (51% of revenues in 2007), Philosophy (13% of revenues), Anthropology, History, Politics and Sociology. The latter four disciplines, which accounted for 36% of revenues in FY2007, form the Social Sciences lists. Due to the dominance of larger players in the industry, it was getting difficult for a smaller player like BDP to operate economically with publications on such a wide variety of disciplines (BDP had about 650 titles at the end of 2007). This reason, along with their tight cash position, prompted BDP to seek potential buyers. Although, the company will lose a few key personnel, and the transaction price is not very favorable for BDP, we believe there are some major intangible benefits to the company associated with this transaction:

- This transaction **allows the company to focus on its core revenue areas** – English and Philosophy. The two areas combined accounted for 64% of the company's revenues in FY2007. Management indicated that had they not decided to sell their lists in the Social Sciences, they would have had to scale back considerably with regards to a few of their ambitious projects in English and Philosophy.
- The initial investment and marketing costs required for new titles is quite substantial for a small publisher like BDP. Therefore, the sale of the Social Sciences lists will **considerably lower their capital and marketing costs.**

- **Improve balance sheet** – The purchase price of \$1.0 - \$1.2 million will significantly improve the company's cash position.

BDP is planning to focus on some very interesting projects in 2008.

### ***Focus in 2008***

**Spin-offs of existing titles:** BDP plans to publish spin-offs of their existing titles, which means reconfiguring their existing titles in various ways and tailoring them to different segments of the market. The company started this process in 2007, when they published a two-volume concise edition of *Broadview Anthology of British Literature* (the full-version was released in 2006 and is currently the company's top seller). In 2008, BDP intends to split volume 6 of BABL into two volumes. Following this split volume, the company intends to pursue several other spin-offs in 2009 and beyond. Management believes that these spin-offs will have market appeal, as these books focus on niche areas and are less expensive than the original version. Management expects BABL sales to improve by 10% (in addition to their organic growth of 10%) as a result of the split volume 6 in 2008.

**New editions of existing titles:** BDP plans to publish new editions of several titles that have traditionally generated considerable revenues for the company. The company is currently focusing on releasing two major titles this year (one of them is a new title). Both these titles will start generating revenues by the end of 2008.

- *The Broadview Anthology of Poetry – 2<sup>nd</sup> Edition* – The first edition of this anthology is the company's bestseller to date. BDP was planning for several years to release a second edition, but the initiative was put on hold due to cash flow issues. The sale of their lists in Social Sciences has allowed BDP to focus on the publication of the second edition. BDP expects to release the edition in the second half of 2008, and expects it to have an impact on revenues starting November 2008.
- *The Broadview Anthology of Social and Political Thought (BASPT)* – The BASPT is a two-volume text, and management expects revenue to be generated in 2008 from volume 1, and in 2009 from both volumes (volume 2 will be published in the second half of 2008).

**Selling books from their new website:** The company's new website now has the capacity to sell books directly to readers. Sales from this distribution have much better margins than sales through online retailers such as Amazon. Therefore, if the company can generate significant sales from their website, we believe it will have a positive impact on margins.

### ***Revenues in line with expectations***

BDP reported a 6.1% YOY increase in revenues in FY2007, as revenues increased from \$4.09 million to \$4.34 million. We were pleased to see that actual revenues were very close to our forecast of \$4.37 million. Actual results were only 0.7% lower than our estimate.

Net sales (adjusted) in Q4-2007 increased by 2.2% YOY (lower returns as a percentage of gross sales more than offset the decline in gross sales). For the 12-month period in FY2007, net sales (adjusted) increased by 5.7% YOY, from \$4.10 million to \$4.33 million. The improvement in revenues was primarily due to a 3.8% YOY growth in net unit sales (from 203,022 to 211,019).

<b>Sales Growth</b>	<b>2006</b>	<b>2007</b>	<b>Growth</b>	<b>Q4-2006</b>	<b>Q4-2007</b>	<b>Growth</b>
Gross Sales	\$5,075,459	\$5,379,994	6.0%	\$1,597,036	\$1,570,209	-1.7%
Actual Returns*	\$975,350	\$1,046,352	7.3%	\$260,040	\$203,302	-21.8%
Net Sales*	\$4,100,109	\$4,333,642	5.7%	\$1,336,996	\$1,366,907	2.2%
*FRC adjusted						
% Returns	19.2%	19.4%		16.3%	12.9%	

**Segmented results:** Strong sales growth in the U.S. (19.5% YOY) was partially offset by a drop in sales in Canada (2.1% YOY) and other areas (10.2% YOY), and a strong C\$/US\$.

<b>Net Sales</b>	<b>2006</b>	<b>% of Total</b>	<b>2007</b>	<b>% of Total</b>	<b>Growth</b>
Canada	2,198,699	53.8%	2,153,415	49.6%	-2.1%
U.S.	1,645,468	40.2%	1,966,069	45.3%	19.5%
Other	244,678	6.0%	219,650	5.1%	-10.2%
<b>Total</b>	<b>4,088,845</b>	<b>100.0%</b>	<b>4,339,134</b>	<b>100.0%</b>	<b>6.1%</b>

**Sales increased in the U.S.** due to higher sales to colleges and universities, and an increase in new sales to wholesaler Baker and Taylor, which supplies university libraries across North America, and other major customers such as Amazon.com. This has given the company better access to the library and internet retail markets. The company attributes this increase in sales to a shift in focus from popular book markets to internet retail and academic library markets. Also, returns as a percentage of gross sales are typically lower for university libraries and internet retailers, which is another benefit of increasing sales to B&T.

**Sales in Canada declined** due to a drop in sales on some existing titles (such as *the Broadview Anthology of Poetry* – which explains why the company has decided to come out with a second edition of this title), and a decline in in-person sales coverage. Management told us that they intend to increase their in-person sales coverage this year. Although we do not expect any major jump in revenues in FY2008, we believe the company will be able to achieve moderate sales growth in 2008, based on all the new initiatives that we discussed earlier in the report.

**U.S. sales in US\$ increased by over 30% YOY in 2007, but U.S. sales in C\$ increased by only 19.5% due to the strong C\$/US\$.** Although BDP started using single prices for books in both the U.S and Canada (for the first time in the company's history), the company was not able to offset the negative impact of a high exchange rate. According to the company, had the C\$ remained at \$0.89 through 2007 (where it was at the end of 2006), their reported net sales would have increased by \$0.11 million (or 2.6% higher). Since we expect the C\$/US\$ to stay above 0.90 for the rest of 2008, we believe that it is very important for BDP to initiate strategies to mitigate exchange rate risks. However, management told us that they have not adopted any hedging strategies yet.

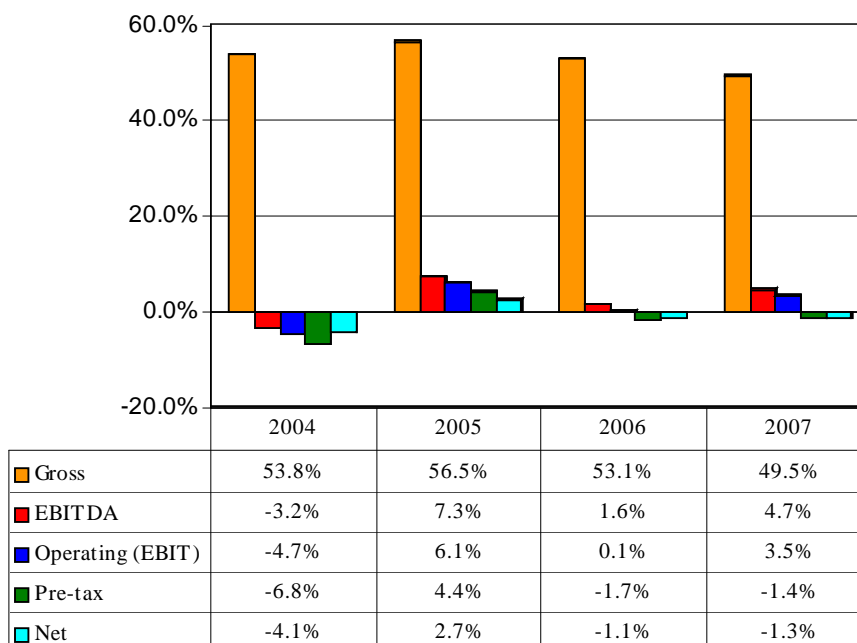
**We have not made any changes in our growth rate assumptions. However, excluding our estimate of revenues from the Social Sciences lists, we have revised our revenue**

**forecasts for FY2008 and FY02009 to \$3.09 million (down from \$4.75 mm) and \$3.13 million (down from \$4.99 mm), respectively. Note that our revenue forecasts for FY2008 includes revenues from the Social Sciences lists during January – April 2008.**

### **Margins**

Although gross margins dropped in FY2007 (from 53.1% to 49.5%) and were slightly below our estimate of 50%, EBITDA and operating margins improved primarily due to a decline in selling, general and administrative (SG&A) expenses as a percentage of sales (from 62.5% to 57.9%), and an increase in other revenues (fee income and government contributions) from 11% to 13.1% of sales.

**Margin Comparisons**



**Gross margins** dropped primarily due to high pre-publication costs of BABL (incurred during development), and the company's new strategy of printing smaller quantities (lower print runs) to preserve cash, and better align inventory with seasonal sales demand. The impact of shorter print runs is that it cuts short-term printing costs, but increases unit costs, which results in lower gross margins.

We believe the company will continue with their strategy of printing smaller quantities in 2008. However, COGS with respect to BABL are expected to drop as the company reprints BABL titles (the company has already reprinted one of the six volumes, and expects to reprint at least two more volumes in 2008). Sales of the reprinted volumes do not carry the high pre-publication costs, and therefore, have higher gross margins.

Previously, we had expected gross margins to improve starting Q1-2008. However, we now expect to see improvement only in the second half of FY2008. We have lowered our gross margins forecasts for FY2008, and FY2009, from 55%, and 61%, to 52.5%, and 55%, respectively.

SG&A expenses dropped due to lower selling expenses, which we believe dropped due to a decline in in-person sales and as the company started using more temporary sales staff in their two peak ordering seasons (spring and fall). Lower SG&A expenses and other income as a percentage of sales more than offset the drop in gross margins, and as a result, EBITDA margins improved from 1.6% to 4.7% YOY. EBITDA improved YOY from \$0.07 million to \$0.20 million.

Although EBITDA and operating margins improved YOY, net margins dropped primarily due to foreign exchange losses. The company reported foreign exchange losses of \$0.10 million in FY2007, versus a gain of \$0.01 million in FY2006.

**EPS Estimates:** The company posted a net loss of \$0.06 million in FY2007 (our estimate was a net loss of \$0.02 million) versus a net loss of \$0.05 million in FY2006.

Based on all the changes that we mentioned earlier in the report, we have revised our EPS forecasts from a net profit of \$0.11 million (EPS: \$0.01) in FY2008, and \$0.31 million (EPS: \$0.03) in FY2009, to a net loss of \$0.03 million (EPS: -\$0.00) and a net profit of \$0.09 million (EPS: \$0.01), respectively.

### **Cash Flows**

Higher revenues and EBITDA margins resulted in increased cash flow from operations YOY, from \$0.23 million to \$0.32 million. The company invested \$0.38 million on working capital in FY2007, versus \$0.74 million in FY2006 (the cash cycle fell from 310 days to 416 days). As for investing activities, the company spent \$0.03 million in FY2007, versus \$0.04 million in FY2006. The company raised \$0.25 million from an equity financing in early 2008. We have lowered our estimate for CAPEX in FY2008, from \$45,000 to \$30,000.

### **Cash Position**

Higher operating cash flows resulted in a net improvement in cash position. Cash and working capital at the end of FY2007 were \$0.11 million and \$1.64 million, respectively, versus \$2,174 and \$1.47 million at the end of FY2006. The table below shows the company's cash and liquidity position along with our forecasts. All the profitability ratios were negative as the company was in a net loss.

<b>Working Capital Analysis</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
Accounts Receivable Days	99	107	119	142	142	142
Inventory Days	465	482	488	359	432	395
Accounts Payable Days	241	244	190	191	191	191
Cash Cycle Days	323	345	416	310	383	346
<b>Liquidity</b>						
Current Ratio	2.04	1.96	1.65	1.69	2.56	2.73
Quick Ratio	0.71	0.70	0.62	0.78	1.52	1.75
Interest Coverage (EBIT)	-2.48	3.64	0.06	1.35	0.44	3.12
Debt/Capital	29.9%	31.1%	44.5%	40.4%	32.2%	28.3%
<b>Profitability</b>						
ROE	-9.3%	6.1%	-3.0%	-3.2%	-1.9%	4.8%
ROIC	-7.3%	9.6%	0.2%	5.2%	1.6%	7.8%
ROA	-4.4%	2.8%	-1.2%	-1.4%	-1.0%	2.6%

The company reduced its debt to capital ratio from 45% to 40% in FY2007. However, it is worth noting that long-term debt is only \$0.06 million, or only 3.3% of invested capital.

**Stock Options** At the end of 2007, the company had 0.31 million stock options outstanding with a weighted average exercise price of \$0.19, and maturity dates between December 2008 and December 2011. None of the options are currently “in the money”.

**Valuation** Our revised Discounted Cash Flow (DCF) valuation increased from \$0.22 per share to \$0.27 per share. In our previous valuation model, our DCF valuation on the company represented a P/S of only 0.6; which explains why our valuation increased as the company sold 36% of its revenues for a P/S between 0.64 – 0.71.

DCF Analysis								
	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal
Funds From Operations	37,463	143,694	88,708	136,290	132,203	189,273	251,710	319,874
Investment in Working Capital	549,339	161,311	192,855	217,285	243,675	32,509	(68,575)	(72,003)
Cash From Operations	586,801	305,005	281,563	353,574	375,879	221,782	183,136	247,871
Capital Expenditures	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Debt Issue	(374,885)	(102,000)	(17,500)	-	-	-	-	-
Free Cash Flow to Equity	181,916	173,005	234,063	323,574	345,879	191,782	153,136	217,871
Present Value	163,154	139,158	168,852	209,351	200,701	99,806	71,475	1,196,342
Total PV	\$2,248,839							
Cash	\$1,002,603							
Shares O/S	12,118,607							
<b>DCF Value Per Share</b>	<b>\$0.27</b>							
					Discount Rate	12%		
					Terminal Growth Rate	3%		

Our valuation on the company based on industry average multiples is shown below.

	Industry Avg	BDP	Fair Value
P/S	2.11	0.33	<b>\$0.40</b>
P/E	18.02	-30.63	<b>n.a.</b>
P/B	2.72	0.59	<b>\$0.30</b>

We have started using the industry average P/S in this report to value the company. We have also discounted BDP’s valuation by 25% to account for its relatively smaller size. Since the company is expected to be in a net loss in FY2008, we did not determine a fair value based on the industry average P/E. However, our valuation based on both P/S and P/B show that the company is clearly undervalued at current price levels.

### Ratings

**Based on our revised valuation models and review of the company’s progress since our previous report, we reiterate our BUY rating, and maintain our fair value estimate on the company at \$0.25 per share. Current price levels of \$0.085 per share reflect an upside potential of 194% from current price levels.**

### Risks

The following risks may cause our estimates to differ from actual results (not exhaustive):

**Copyright Violation and Technological Changes** — Any high-growth in the secondary trading of (used) textbooks and photocopying of textbooks may have an adverse effect on future textbook sales growth. This is mitigated by changing textbook editions every few years. Any growth in electronic books and “on-demand” publishing could also result in

adverse effects. BDP notes that it is monitoring new developments and feels confident in its ability to compete electronically.

**Exchange Rates** - About half of sales are outside Canada. Therefore, the company is exposed to a rising C\$. However, our analysis, and the company's results to date, indicate that BDP is able to still perform well. However, there is no guarantee this will continue. Eventually, bookstores may seek cheaper local alternatives if the dollar remains high too long or continues to increase.

**Seasonality and Debt Financing** — The company's sales are seasonal and it relies on bank financing to fund working capital at times. In addition, the company will invest a large amount upfront in new titles without knowing what the market demand will be.

**Thin Trading** — BDP is thinly traded and investors may face liquidity issues when trying to enter and exit positions.

## Appendix

### Statement of Operations

(All figures in C\$)

	2005	2006	2007	2008E	2009E
<b>Revenues (Publications)</b>	3,633,471	4,088,845	4,339,134	3,086,117	3,129,582
COGS	1,579,580	1,917,676	2,192,373	1,465,906	1,408,312
<b>Gross Margin</b>	2,053,891	2,171,169	2,146,761	1,620,212	1,721,270
Other	199,388	200,279	256,934	169,736	172,127
Gov't Grant	254,478	248,605	313,024	138,875	140,831
Selling Expenses & Admin	2,241,986	2,553,749	2,511,786	1,820,809	1,783,862
<b>EBITDA</b>	265,771	66,304	204,933	108,014	250,367
Amortization	43,404	61,519	51,903	67,451	53,007
<b>EBIT</b>	222,367	4,785	153,030	40,563	197,359
Interest	61,054	85,442	113,139	92,302	63,331
FX Loss & Other Losses	2,307	(10,265)	98,940	-	-
<b>EBT</b>	159,006	(70,392)	(59,050)	(51,738)	134,029
Current	86,567	(18,805)	(19,050)	(18,108)	46,910
Deferred	(25,411)	(5,032)	16,890	-	-
Total Income Tax	61,156	(23,837)	(2,160)	(18,108)	46,910
<b>Net Income</b>	97,850	(46,555)	(56,890)	(33,630)	87,119
<b>EPS</b>	0.009	(0.004)	(0.005)	(0.003)	0.007

**Balance Sheets**

(All figures in C\$)

	2005	2006	2007	2008E	2009E
<b>Assets</b>					
Current					
Cash	24,281	2,174	105,742	1,287,658	1,460,663
Accounts Receivable	1,068,168	1,327,736	1,682,857	1,196,896	1,213,754
Inventory	2,084,372	2,345,763	2,156,207	1,734,905	1,525,911
Prepaid Expenses & Tax Recoverable	59,200	68,341	74,428	52,935	53,681
<b>Total Current Assets</b>	<b>3,236,021</b>	<b>3,744,014</b>	<b>4,019,234</b>	<b>4,272,395</b>	<b>4,254,009</b>
Capital Assets					
Capital Assets	83,321	88,202	78,707	56,804	49,345
Tax Recovery	76,018	81,050	64,160	64,160	64,160
Intangibles	70,617	55,068	39,520	23,972	8,424
Contra Asset				(1,000,000)	(1,000,000)
<b>Total Assets</b>	<b>3,465,977</b>	<b>3,968,334</b>	<b>4,201,621</b>	<b>3,417,331</b>	<b>3,375,938</b>
<b>Liabilities</b>					
Current					
Bank Debt + Current LT Debt	502,216	1,111,683	1,134,885	802,000	717,500
Accounts Payable	1,054,505	1,000,408	1,145,024	765,608	735,528
Income Taxes Payable	92,553	-	-	-	-
Non-Refundable Deposit		157,938	102,967	102,967	102,967
Deferred Government Grant					
<b>Total Current Liabilities</b>	<b>1,649,274</b>	<b>2,270,029</b>	<b>2,382,876</b>	<b>1,670,575</b>	<b>1,555,995</b>
Long-Term Debt					
Long-Term Debt	218,548	138,651	59,500	17,500	-
Deferred Tax					
<b>Total Liabilities</b>	<b>1,867,822</b>	<b>2,408,680</b>	<b>2,442,376</b>	<b>1,688,075</b>	<b>1,555,995</b>
<b>Equity</b>					
Share Capital	793,965	797,315	1,045,640	1,045,640	1,045,640
Surplus	14,269	18,973	27,129	30,771	34,338
Retained Earnings	789,921	743,366	686,476	652,846	739,965
<b>Total Equity</b>	<b>1,598,155</b>	<b>1,559,654</b>	<b>1,759,245</b>	<b>1,729,257</b>	<b>1,819,943</b>
<b>Total Liabilities and Equity</b>	<b>3,465,977</b>	<b>3,968,334</b>	<b>4,201,621</b>	<b>3,417,331</b>	<b>3,375,938</b>

**Statement of Cash Flows**

(All figures in C\$)

	2005	2006	2007	2008E	2009E
<b>Operating</b>					
Net Income	97,850	(46,555)	(56,890)	(33,630)	87,119
Depreciation	43,404	61,519	51,903	67,451	53,007
Stock Compensation	6,004	4,704	8,156	3,642	3,568
Future Tax	(25,411)	(5,032)	16,890	-	-
Loss From Asset Sale & Other	11,863		-	-	-
Non-Cash Expenses			5,867		
Inventory Valuation Allowance		217,328	296,277		
<b>Funds From Operations</b>	<b>133,710</b>	<b>231,964</b>	<b>322,203</b>	<b>37,463</b>	<b>143,694</b>
<b>Working Capital Investment</b>					
Accounts Receivable	(156,992)	(101,630)	(355,121)	485,961	(16,857)
Inventory	(83,979)	(478,719)	(106,723)	421,302	208,994
Prepaid Expenses	(4,547)	(9,141)	(5,842)	21,493	(746)
Accounts Payable	72,817	(54,097)	144,617	(379,416)	(30,080)
Deferred Government Grant			-	-	-
Non-refundable deposits			(54,971)		
Tax Payable/Recoverable & Other	115,086	(92,553)	(245)	-	-
<b>Cash From Operations</b>	<b>76,095</b>	<b>(504,176)</b>	<b>(56,082)</b>	<b>586,801</b>	<b>305,005</b>
<b>Investing</b>					
Fixed Assets (incl acquisitions)	(45,386)	(41,268)	(26,859)	(30,000)	(30,000)
Proceeds From Disposals			-	1,000,000	-
<b>Cash Used in Investment</b>	<b>(45,386)</b>	<b>(41,268)</b>	<b>(26,859)</b>	<b>970,000</b>	<b>(30,000)</b>
<b>Financing</b>					
Bank Debt	(40,140)	519,987	(61,816)	(374,885)	(102,000)
Equity	10,550	3,350	248,325	-	-
<b>Cash From Financing</b>	<b>(29,590)</b>	<b>523,337</b>	<b>186,509</b>	<b>(374,885)</b>	<b>(102,000)</b>
Change in Cash	1,119	(22,107)	103,568	1,181,916	173,005
Cash BOP	23,162	24,281	2,174	105,742	1,287,658
Cash EOP	24,281	2,174	105,742	1,287,658	1,460,663

**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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