

### Broadview Press Inc. (TSX-V: BDP) – Shares trading well below working capital minus debt

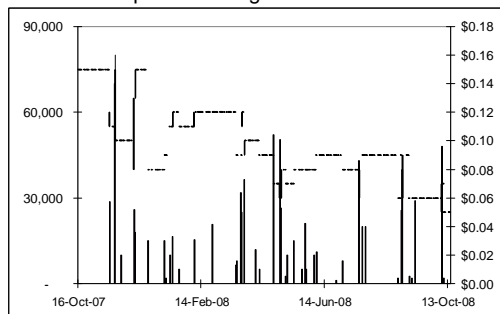
Sector/Industry: Publishing

www.broadviewpress.com

#### Market Data (as of October 16, 2008)

Current Price	C\$0.05
Fair Value	C\$0.17 (↓)
Rating*	BUY
Risk*	3 (Average)
52 Week Range	C\$0.05 -C\$0.16
Shares O/S	12,118,607
Market Cap	C\$0.61 million
Current Yield	N/A
P/E	N/A
P/B	0.44
YoY Return	-66.7%
YoY TSX-V	-68.8%

\*see back of report for rating and risk definitions



#### Q2-2008 Highlights

- The strong C\$ and a significant increase in book returns put downward pressure on revenues in Q2-2008. The C\$ (with respect to the US\$) has dropped by 16% since Q2-2008, and 19% versus the Q3-2007 average; therefore, we believe, the impact of the C\$ on revenues will lessen in the second half of FY2008.
- On a positive note, total gross sales in the U.S. and Canada in the last two months of Q2-2008 were up 17% YOY, from \$0.34 million to \$0.39 million; which is highly encouraging.
- Gross and EBITDA margins dropped YOY in Q2-2008 and were below expectations. We expect margins to improve in the second half as the company increases print runs and as the company records a whole quarter of general and administrative cost savings due to the sale of its assets.
- Statistics Canada released university enrollment figures in February 2008, for the 2005/06 academic year. Notably, enrollments in humanities (which accounted for 15% of total enrollments) experienced the fastest growth (6.4% YOY; 0.15 million to 0.16 million) of all fields of study.
- At the end of Q2-2008, the company's working capital minus long-term debt was \$1.25 million, or \$0.10 per share. At current share prices, BDP shares are trading well below its working capital minus debt.

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

(C\$)	2005	2006	2007	2008E	2009E
Total Revenue	3,633,471	4,088,845	4,339,134	2,845,545	2,987,823
EBITDA Margin	7.3%	1.62%	4.7%	-12.0%	-1.0%
EBIT to Interest	3.64	0.06	1.35	(4.04)	(0.92)
Net Margin	2.7%	-1.1%	-1.3%	-10.6%	-2.3%
Net Income	97,850	(46,555)	(56,890)	(302,318)	(68,437)
EPS	0.01	(0.00)	(0.00)	(0.02)	(0.01)
Current Ratio	1.96	1.65	1.69	1.94	1.82
Debt to Capital	31.1%	44.5%	40.4%	32.6%	32.3%
ROE	6.1%	-3.0%	-3.2%	-20.7%	-4.9%
ROIC	9.6%	0.2%	5.2%	-17.2%	-2.4%

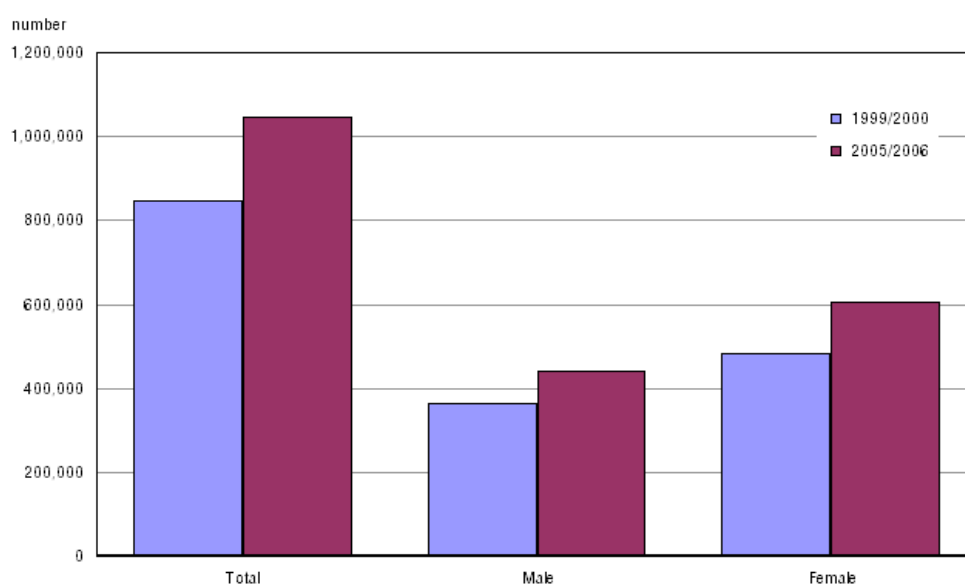
*Broadview Press Inc. is an independent publisher focusing mainly on the academic textbook market. The company publishes textbooks primarily on humanities (English and Philosophy). The company's revenues are derived almost equally from domestic (Canadian) sales and export sales (mainly to the United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

***Humanities experienced the fastest growth in student enrollments***

Before we review BDP's Q2 results, we present some industry statistics and forecasts released by Statistics Canada and the U.S. Department of Education (DOE).

Statistics Canada released university enrollment figures in February 2008, for the 2005/06 academic year. Although these are old figures, we can infer certain results from this data to the present.

Enrollments in Canadian universities hit a record high of 1.05 million students (up 3% YOY) for the fifth consecutive year in the academic year 2005/06. Enrollments were driven by continued growth in the number of foreign students and echo boomers in Canada (Baby Boomers' children). The chart below shows the growth in enrolments during 1999/2000 to 2005/2006.

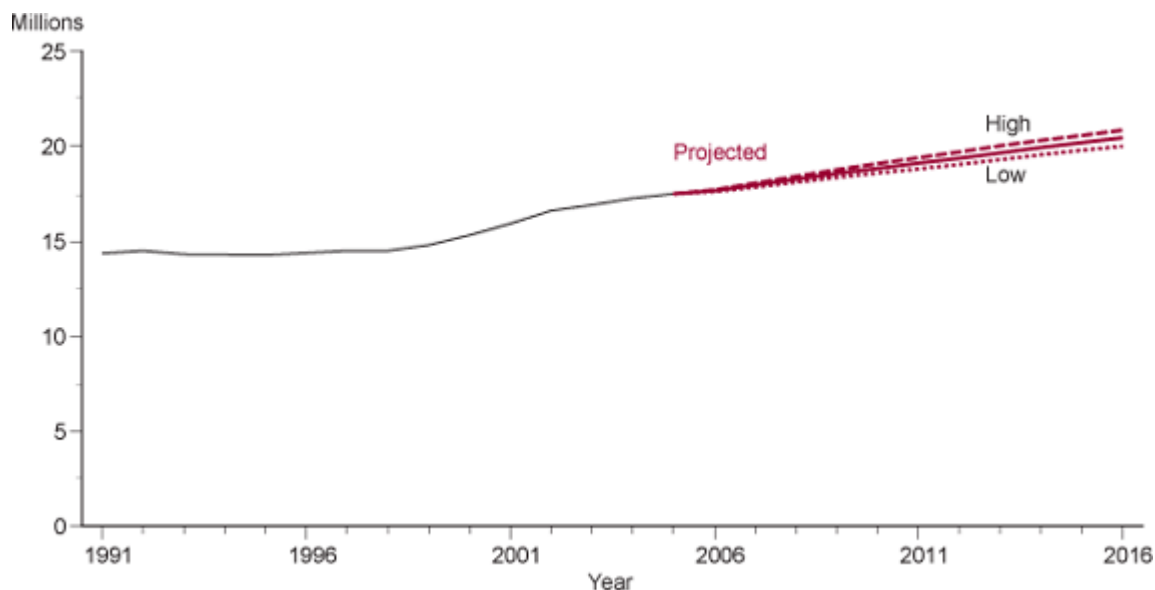


*Source: Statistics Canada*

Notably, enrollments in Humanities (which accounted for 15% of total enrollments) experienced the fastest growth (6.4% YOY; 0.15 million to 0.16 million) of all fields of study. The CAGR during 1999/00 to 2005/06 was 5.1%. This is very encouraging for BDP as its primary focus at this time is publishing textbooks on humanities (English and Philosophy).

***Student enrollments in the U.S. are estimated to grow at a CAGR of 1.4% through 2016***

The following chart shows the U.S. Department of Education's forecasts (as of December 2007) for student enrollments in degree-granting postsecondary institutions through 2016.



Source: U.S. Department of Education

The DOE estimates student enrolments will increase from 17.49 million in 2005, to 20.44 million by 2016, representing a CAGR of 1.4%. Although these are not strong growth rate projections, we believe they are favorable for BDP.

*High returns and a strong C\$ continued to put downward pressure on revenues*

BDP completed the sale of its social sciences lists to the University of Toronto Press on May 1, 2008. The sale price was eventually finalized at \$1.16 million, which was within the initially proposed range of \$1.0 - \$1.2 million.

The table below shows the company's segmented results in Q2, and the six month period in FY2008, versus comparable periods in the previous years.

Net Sales	Q2 - 2006	% of Total	Q2 - 2007	% of Total	Q2 - 2008	% of Total
Canada	335,527	59.0%	307,083	57.6%	304,601	90.6%
U.S.	210,754	37.1%	210,849	39.5%	21,512	6.4%
Other	22,378	3.9%	15,301	2.9%	10,101	3.0%
<b>Total</b>	<b>568,659</b>	<b>100.0%</b>	<b>533,233</b>	<b>100.0%</b>	<b>336,214</b>	<b>63.1%</b>
Net Sales	2006 (6 mo)	% of Total	2007 (6 mo)	% of Total	2008 (6 mo)	% of Total
Canada	375,716	39.8%	322,099	29.0%	249,712	28.6%
U.S.	491,142	52.0%	714,617	64.4%	534,248	61.1%
Other	76,796	8.1%	72,138	6.5%	90,252	10.3%
<b>Total</b>	<b>943,654</b>	<b>100.0%</b>	<b>1,108,854</b>	<b>100.0%</b>	<b>874,212</b>	<b>100.0%</b>

Net sales in Q2-2008 were \$0.34 million versus \$0.53 million in Q2-2007. Obviously, these figures are not comparable because the last two months of Q2-2008 did not include revenues from the social science lists that were sold to UTP.

The company, however, disclosed comparable gross sales figures (as shown in the following table).

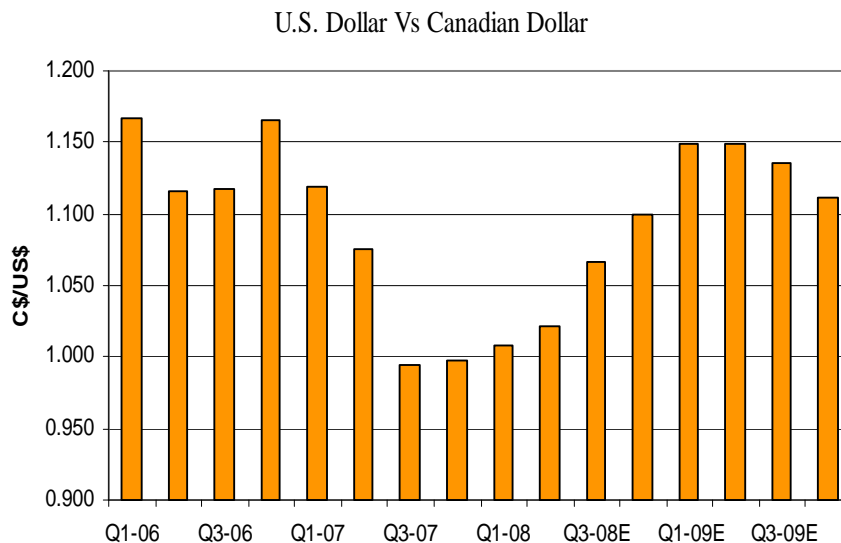
Sales in the U.S. and Canada				
Titles	Period	2007	2008	Growth
All titles	Jan - April	\$881,762	\$906,365	2.8%
Only Humanities	May - June	\$336,761	\$394,330	17.1%

Total gross sales in the U.S. and Canada in the last two months of Q2-2008 were up 17% YOY, from \$0.34 million to \$0.39 million; which is highly encouraging. Specifically, U.S. sales increased from \$0.12 million to \$0.13 million (14% YOY increase), and Canadian sales improved from \$0.22 million to \$0.26 million (19% YOY increase). **Sale figures from both regions are encouraging; however, we do not know comparable net sales figures (which is gross sales minus returns) during the period to make a conclusive opinion that revenues improved YOY in the last two months of Q2.**

A significant increase in book returns (both in the U.S. and Canada), and the strong C\$/US\$, impacted net sales in Q2. Management attributed the increase in returns to booksellers' tendency to return overstocked textbooks, during change in ownership, or any uncertainty, that they would have typically held onto for the next period, and probably due to lower than expected student enrollments than what bookstores and academics had expected. Our discussions with management indicated that the only way they can control returns is to have restocking fees to encourage bookstores not to overorder; a strategy the company adopted few years ago.

Going forward, we expect continued growth in sales in the U.S. based on increased sales to colleges and universities, and new sales to wholesaler Baker and Taylor (which supplies university libraries across North America and other major customers such as Amazon.com (NASDAQ: AMZN)). To counter the drop in sales in Canada, the company has increased their sales efforts (in person and email) to both the U.S. and Canada.

As mentioned earlier, one of the major factors that put downward pressure on revenues in the quarter was the strong C\$. The C\$ has depreciated in the second half (as we had predicted in our previous reports), and as of October 15, 2008, was trading at \$1.18 (with respect to the US\$), which reflects an increase of 16% since Q2-2008, and 19% versus the Q3-2007 average. The following chart, which shows forecasts for C\$/US\$ through Q4-2009, shows that the C\$ is expected to stay considerably lower than levels during Q3-2007 and Q2-2008.



Source: TD Economics

This is favorable for BDP, and we continue to believe that the impact of the C\$ on revenues will lessen in the second half of FY2008.

**Since Q2 revenues were below our expectations, we have lowered our revenue forecast for FY2008, from \$3.09 million to \$2.85 million, and for FY2009, from \$3.09 million to \$2.99 million.**

### ***Margins dropped YOY***

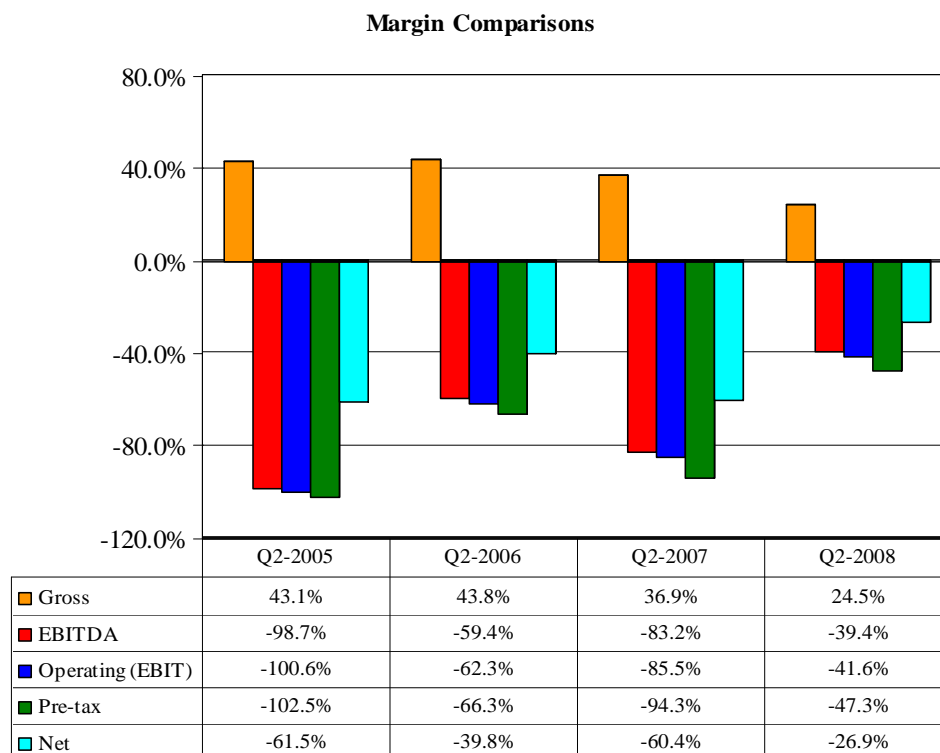
Gross margins dropped YOY in Q2-2008, as cost of goods sold (COGS) as a percentage of sales increased from 63% to 76%. This was a big disappointment. We were expecting gross margins to be soft in Q2 primarily due to high pre-publication costs of BABL (incurred during development), and the company's recent strategy of printing smaller quantities (lower print runs) to preserve cash, and better align inventory with seasonal sales demand. Although margins in the first half of a fiscal year are typically not a good indicator of margins for the entire fiscal year (as only 25% of revenues are generated during the first half), disappointing margins in Q2 have prompted us to lower our gross margin forecasts for FY2008, and FY2009, from 52.5%, and 55%, to 45%, and 50%, respectively.

Gross margins are expected to improve in the second half of FY2008, as the company reprints other volumes of BABL (only Vol.1 has been reprinted to date) and increase print runs.

EBITDA improved YOY in Q2-2008 from (\$0.44 million) to (\$0.13 million) as:

- a) the company recorded a gain on sale of assets of about \$0.41 million;
- b) selling, general and administrative costs dropped from \$0.69 million to \$0.66 million due to the sale of assets.

The following chart shows margins in Q2-2008, versus comparable periods in previous years.



Operating expenses as a percentage of sales are typically higher in the first half of a fiscal year, as most of the company's revenues (about 75%) are generated in the second half. As a result of the UTP transaction, the company already expensed their operating costs associated with the lists in the social sciences in the first four months of the year, but will not be able to offset these expenses from higher revenues in the second half of the year. **Therefore, we expect EBITDA margins to be lower YOY in FY2008. However, investors should note that the drop in margins was not due to any operational problems, but due to the timing of the acquisition.**

**EPS Estimates:** The company posted a lower net loss of \$0.09 million in Q2-2008 (EPS: -\$0.01) thanks to the gain on sale of assets versus a net loss of \$0.32 million (EPS: -\$0.03) in Q2-2007. In the six month period, the company reported a net loss of \$0.39 mm (EPS: -\$0.03) versus \$0.55 mm (EPS: -\$0.05) in the comparable period

**We have lowered our EPS forecasts from a net loss of \$0.03 million (EPS: \$0.00) in FY2008 to \$0.30 million (EPS: -\$0.03), and net profit of \$0.09 million (EPS: \$0.01) in FY2009 to a net loss of \$0.07 million (EPS: \$0.01).**

### **Cash Flows**

In the six month period, the company spent \$0.33 million on operations (\$0.52 million in the comparable period in the previous year), but raised \$1.11 million (\$0.13 million in the comparable period in the previous year) from working capital; most of which came from the sale of assets.

The company used the cash from sale of assets to pay down their revolving line of credit of \$350,000, and \$0.05 million in notes payables and term loans in Q2.

### Cash Position

As the company paid down debt, the current ratio and debt to capital improved QoQ from 1.7x to 2.0x, and 32% to 21%. Cash and working capital position change little QoQ and was \$0.05 million and \$1.29 million at the end of Q2. The table below shows the company's cash and liquidity position.

	2004	2005	2006	2007	2008 - Q2 (6 mo)
Cash	\$23,162	\$24,281	\$2,174	\$105,742	\$47,086
Current Ratio	2.04	1.96	1.65	1.69	2.04
Working Capital	\$1,525,305	\$1,586,747	\$1,473,985	\$1,636,358	\$1,285,853
Debt to Capital	29.9%	31.1%	44.5%	40.4%	20.7%
Interest Coverage	(2.5)	3.6	0.1	1.4	(18.2)

The transaction with UTP has clearly led to an improved balance sheet. Subsequent to the sale, the company's operating facility with TD Bank was lowered (as 34% of revenues were sold to UTP) as shown in the following table. However, we believe the company has a sound balance sheet and does not believe the lower operating facility will impact their liquidity.

	Previous	Revised
Dec 1 - Mar 31	\$700,000	\$650,000
Apr 1 - Aug 31	\$1,050,000	\$850,000
Sept 1 - Nov 30	\$1,250,000	\$850,000

### Stock Options

At the end of Q2-2008, 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

We have revised our Discounted Cash Flow (DCF) valuation from \$0.27 per share to \$0.18 per share to reflect the drop in our EPS forecasts.

DCF Analysis								
	2008 - H2E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal
Funds From Operations	109,343	(43,448)	85,564	215,355	303,882	336,816	372,910	412,536
Investment in Working Capital	(434,895)	189,565	(28,124)	(27,852)	(27,525)	(27,137)	(26,687)	(26,169)
Cash From Operations	(325,552)	146,117	57,439	187,503	276,357	309,678	346,224	386,367
Capital Expenditures	(5,912)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Free Cash Flow to Equity	(331,464)	116,117	27,439	157,503	246,357	279,678	316,224	356,367
Present Value	(322,565)	101,345	21,478	110,572	155,113	157,930	160,150	2,123,297
Total PV	\$2,507,320							
Cash - Debt	(309,564)							
Shares O/S	12,118,607							
<b>DCF Value Per Share</b>	<b>\$0.18</b>							
					Discount Rate	12%		
					Terminal Growth Rate	3%		

Our revised valuation on the company based on industry average multiples is shown below. Our valuation based on both P/S and P/B show that the company is clearly undervalued at current price levels.

	Industry Avg	BDP	Fair Value
P/S	1.13	0.21	<b>\$0.20</b>
P/E	10.99	-2.00	<b>n.a.</b>
P/B	1.46	0.44	<b>\$0.12</b>

*Note – Industry average multiples were discounted by 25% to determine BDP’s fair value to account for its relatively smaller size.*

### **Ratings**

**Therefore, based on our revised valuation models and review of the company’s progress since our previous report, we reiterate our BUY rating, but lower our fair value from \$0.25 to \$0.17 per share. Our revised valuation reflects upside potential of 240% 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 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 should the market move in that direction.

**Exchange Rates** - About 50% of the company’s sales are outside Canada. Therefore, the company is exposed to a rising C\$.

**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	2,845,545	2,987,823
COGS	1,579,580	1,917,676	2,192,373	1,565,050	1,493,911
<b>Gross Margin</b>	<b>2,053,891</b>	<b>2,171,169</b>	<b>2,146,761</b>	<b>1,280,495</b>	<b>1,493,911</b>
Other	199,388	200,279	256,934	527,603	128,733
Gov't Grant	254,478	248,605	313,024	205,277	215,541
Selling Expenses & Admin	2,241,986	2,553,749	2,511,786	2,354,696	1,867,389
<b>EBITDA</b>	<b>265,771</b>	<b>66,304</b>	<b>204,933</b>	<b>(341,320)</b>	<b>(29,204)</b>
Amortization	43,404	61,519	51,903	31,483	21,254
<b>EBIT</b>	<b>222,367</b>	<b>4,785</b>	<b>153,030</b>	<b>(372,803)</b>	<b>(50,458)</b>
Interest	61,054	85,442	113,139	92,302	54,830
FX Loss & Other Losses	2,307	(10,265)	98,940	-	-
<b>EBT</b>	<b>159,006</b>	<b>(70,392)</b>	<b>(59,050)</b>	<b>(465,104)</b>	<b>(105,288)</b>
Current	86,567	(18,805)	(19,050)	(162,787)	(36,851)
Deferred	(25,411)	(5,032)	16,890	-	-
Total Income Tax	61,156	(23,837)	(2,160)	(162,787)	(36,851)
<b>Net Income</b>	<b>97,850</b>	<b>(46,555)</b>	<b>(56,890)</b>	<b>(302,318)</b>	<b>(68,437)</b>
<b>EPS</b>	<b>0.009</b>	<b>(0.004)</b>	<b>(0.005)</b>	<b>(0.025)</b>	<b>(0.006)</b>

**Balance Sheets**

(All figures in C\$)

	2005	2006	2007	2008E	2009E
<b>Assets</b>					
<b>Current</b>					
Cash	24,281	2,174	105,742	64,384	138,501
Accounts Receivable	1,068,168	1,327,736	1,682,857	1,245,872	1,278,288
Inventory	2,084,372	2,345,763	2,156,207	1,460,980	1,357,224
Prepaid Expenses & Tax Recoverable	59,200	68,341	74,428	48,809	49,936
<b>Total Current Assets</b>	<b>3,236,021</b>	<b>3,744,014</b>	<b>4,019,234</b>	<b>2,820,045</b>	<b>2,823,948</b>
<b>Capital Assets</b>					
Capital Assets	83,321	88,202	78,707	53,136	61,882
Tax Recovery	76,018	81,050	64,160	64,160	64,160
Intangibles	70,617	55,068	39,520	-	-
<b>Total Assets</b>	<b>3,465,977</b>	<b>3,968,334</b>	<b>4,201,621</b>	<b>2,937,341</b>	<b>2,949,990</b>
<b>Liabilities</b>					
<b>Current</b>					
Bank Debt + Current LT Debt	502,216	1,111,683	1,134,885	692,000	667,500
Accounts Payable	1,054,505	1,000,408	1,145,024	660,883	780,234
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>1,455,850</b>	<b>1,550,701</b>
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>1,473,350</b>	<b>1,550,701</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	34,193	37,928
Retained Earnings	789,921	743,366	686,476	384,158	315,721
<b>Total Equity</b>	<b>1,598,155</b>	<b>1,559,654</b>	<b>1,759,245</b>	<b>1,463,991</b>	<b>1,399,289</b>
<b>Total Liabilities and Equity</b>	<b>3,465,977</b>	<b>3,968,334</b>	<b>4,201,621</b>	<b>2,937,341</b>	<b>2,949,990</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)	(302,318)	(68,437)
Depreciation	43,404	61,519	51,903	31,483	21,254
Stock Compensation	6,004	4,704	8,156	7,064	3,735
Future Tax	(25,411)	(5,032)	16,890	-	-
Loss From Asset Sale & Other	11,863	-	-	-	-
Non-Cash Expenses	-	-	5,867	39,520	-
Inventoy Valuation Allowance	-	217,328	296,277	-	-
<b>Funds From Operations</b>	<b>133,710</b>	<b>231,964</b>	<b>322,203</b>	<b>(224,251)</b>	<b>(43,448)</b>
<b>Working Capital Investment</b>					
Accounts Receivable	(156,992)	(101,630)	(355,121)	436,985	(32,415)
Inventory	(83,979)	(478,719)	(106,723)	695,227	103,756
Prepaid Expenses	(4,547)	(9,141)	(5,842)	25,619	(1,127)
Accounts Payable	72,817	(54,097)	144,617	(484,141)	119,351
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>449,439</b>	<b>146,117</b>
<b>Investing</b>					
Fixed Assets (incl acquisitions)	(45,386)	(41,268)	(26,859)	(5,912)	(30,000)
Proceeds From Disposals	-	-	-	-	-
<b>Cash Used in Investment</b>	<b>(45,386)</b>	<b>(41,268)</b>	<b>(26,859)</b>	<b>(5,912)</b>	<b>(30,000)</b>
<b>Financing</b>					
Bank Debt	(40,140)	519,987	(61,816)	(484,885)	(42,000)
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>(484,885)</b>	<b>(42,000)</b>
Change in Cash	1,119	(22,107)	103,568	(41,358)	74,117
Cash BOP	23,162	24,281	2,174	105,742	64,384
Cash EOP	24,281	2,174	105,742	64,384	138,501

**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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