

### Continuum Resources Inc. (TSXV: CNU) – Mails Acquisition Circular – FINAL REPORT

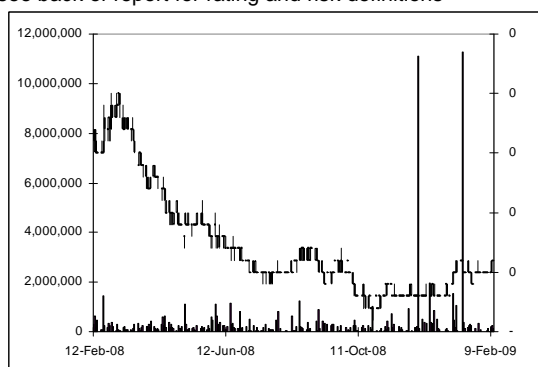
Sector/Industry: Junior Mining

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

#### Market Data (as of February 17, 2009)

Current Price	C\$0.055
Fair Value	N/A
Rating*	N/A
Risk*	5 (Highly Spec)
52 Week Range	C\$0.01 – C\$0.20
Shares O/S	124.05 mm
Market Cap	C\$6.82 mm
Current Yield	N/A
P/E	N/A
P/B	0.86
YoY Return	-63.3%
YoY TSX-V	-64.2%

\*see back of report for rating and risk definitions



#### Investment Highlights

- In August 2008, the company and Fortuna Silver Mines (TSXV: FVI) announced an acquisition agreement whereby Fortuna will acquire all the outstanding shares of CNU by issuing 7 million shares of Fortuna shares (0.0564 shares of Fortuna for 1 share of CNU).
- At current prices, the acquisition is valued at \$7.3 million, or \$0.058 per share. CNU shares are currently trading at \$0.055 per share.
- Our previous valuation on CNU (as of January 2008) was \$0.49 per share. Based on the developments since then, we have revised our valuation on the company to \$0.12 per share. Although, the acquisition price is lower than our fair value estimate, if the deal does not go through, we believe CNU will face liquidity issues.
- If the proposed acquisition is completed, our valuation on Fortuna, just based on its working capital (net of debt) and the San Jose project, is \$1.21 per share. FVI shares are currently trading at \$1.04 per share. Note that Fortuna also owns the producing Caylloma Ag - Pb - Zn Mine.
- If all conditions are met, the acquisition is expected to be completed on or about March 13, 2009.

#### Key Financial Data (C\$)

	2008 (9 mo)
Cash	53,716
Working Capital	(371,145)
Mineral Assets	8,253,220
Total Assets	8,633,143
LT Debt / Assets	2.9%
Net Loss	(3,533,997)
Loss per Share	(0.03)

Continuum Resources Ltd. ("CNU") is a Vancouver based junior gold and silver company that is focusing its exploration efforts in the southern Mexican province of Oaxaca, where they hold over 10 properties.

**Sale of  
Company**

In August 2008, the company and Fortuna announced an acquisition agreement whereby Fortuna will acquire all the outstanding shares of CNU by issuing 7 million shares of Fortuna (0.0564 shares of Fortuna for 1 share of CNU). We estimate that the proposed all-share deal represented a valuation of \$8.96 million, or \$0.07 per share; a premium of 40% over CNU's share price then. At current prices, the acquisition is valued at \$7.3 million, or \$0.058 per share. CNU shares are currently trading at \$0.055 per share. Our previous valuation on CNU (January 2008) was \$0.49 per share. Based on the developments since then, we have revised our valuation on the company to \$0.12 per share as shown below.

<b>Valuation Summary</b>		
	<b>Revised</b>	<b>Previous</b>
San Jose Project	\$0.12	\$0.24
Other Projects	\$0.00	\$0.21
Working Capital - Debt	(\$0.00)	\$0.04
<b>Net Value</b>	<b>\$0.12</b>	<b>\$0.49</b>

*\* Note – Our valuation dropped as we lowered our valuation on the San Jose project (from \$0.24 to \$0.12 per share (as we have now used more conservative estimates for throughput, delayed commencement of production and increased the number of outstanding shares), and as the company has entered into an agreement to sell most of its other projects for only \$85,000 (see details on the next page).*

The acquisition price is lower than our fair value estimate. However, we believe the deal allows CNU to avoid a liquidity problem. In addition to their 76% interest in the San Jose project, Fortuna also owns the producing Caylloma Ag - Pb - Zn Mine in Peru. At the end of September 2008, Fortuna had about \$41 million in cash, and generated revenues and operating cash flows of \$22.5 million and \$2.6 million, respectively, in the first nine months of FY2008.

If the proposed acquisition is completed, our valuation on Fortuna, just based on its working capital (net of debt) and the San Jose project is \$1.21 per share. Note that the company also owns the producing Caylloma Ag - Pb - Zn Mine which we have not included in the valuation below.

<b>Fortuna Silver Mines</b>	
	<b>Valuation</b>
San Jose Project (100% owned)	\$0.70
Caylloma Mine (100% owned)	
Working Capital - Debt	\$0.51
<b>Fair Value</b>	<b>\$1.21</b>

FVI shares are currently trading at \$1.04 per share.

***Sale of assets  
and eliminates  
convertible  
debentures***

CNU holds over 10 gold/silver projects in the southern Mexican province of Oaxaca. Fortuna's interest in CNU lies in its 24% interest in Fortuna's San Jose Project in Mexico. By acquiring CNU, Fortuna aims to increase its ownership to 100%. In connection with the acquisition, CNU disposed of its wholly-owned subsidiary, Continuum Resources S.A. de C.V. (CNU Mexico) and eliminated its outstanding convertible debentures (\$0.27 million) through the following transactions:

- **Sale of CNU Mexico** – In December 2008, the company entered into an agreement to sell all of the issued and outstanding shares of CNU Mexico to Atomic Minerals Ltd. (TSXV: ATL). In return, Atomic will pay the company C\$85,000 in cash. CNU Mexico owns six blocks of mining claims in Oaxaca. The proposed acquisition is considered to be a non-arm's length transaction, as Atomic's Chief Executive Officer and one of its independent board members are each currently directors and officers of CNU. The transaction is subject to a due diligence review and the approval of the TSX Venture Exchange.
- **Eliminates convertible debentures** – The company eliminated its convertible debentures (valued at \$0.27 million) through the following agreements/transactions:
  - The debenture holders (Directors and officers and a former director of CNU subscribed for \$0.17 million) confirmed that they would exercise their conversion privilege and tender the shares received to Fortuna pursuant to the proposed acquisition.
  - In December 2008, CNU sold certain exploration equipment and assigned the convertible debenture secured on such equipment to a private company incorporated in Saskatchewan for nil consideration.

**Subsequent to the sale of CNU Mexico, the company's primary assets will be its interest in the San Jose property and an option to acquire the Predilecta property, which is located near the San Jose property.**

***Mails  
Acquisition  
Circular***

On January 27, 2009, the company announced it had mailed its shareholders a circular describing the terms of the proposed acquisition. A meeting of the shareholders has been called for February 23, 2009, to approve the acquisition. Completion of the acquisition is also subject to certain other conditions including court approval and acceptance for filing by the TSX Venture Exchange. If all conditions are met, the acquisition is expected to be completed on or about March 13, 2009.

***Rating***

At the end of September 2008, CNU had \$0.05 million in cash, and a working capital deficit of \$0.37 million. The working capital deficit includes a loan of \$0.20 million that was granted to CNU by Fortuna. Subsequently, Fortuna granted an additional loan of \$0.10 million to CNU.

**Based on our revised valuation of CNU, our valuation on FVI (based on working capital net of debt and the San Jose project alone), and CNU's financial position should the deal not go through, we recommend investors tender their shares, and therefore, our rating and fair value is N/A.**

**Risks**

**Note that if the acquisition fails to go through, CNU will face liquidity problems.**

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

- CNU does not have any operating mines and hence, does not generate any revenues or cash flows.
- CNU's success is dependent on the management and development of its exploration projects.
- The success of drilling, expansion and increasing favorable resource estimates are very important for the company's future prospects.
- The value of the company depends heavily on gold and silver prices.
- Access to capital and share dilution.

**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.

**Disclaimers and Disclosure**

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees of less than \$30,000 have been paid by CNU to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, CNU has agreed to a minimum coverage term including an initial report and three updates. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at [www.investars.com](http://www.investars.com).

The distribution of FRC's ratings are as follows: BUY (69%), HOLD (12%), SELL (4%), SUSPEND (15%).

To subscribe for real-time access to research, visit <http://www.researchfrc.com/subscription.htm> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

Fundamental Research Corp is registered with the British Columbia Securities Commission as a Securities Adviser which is not in any way an endorsement from the BCSC. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.