

### Continuum Resources Inc. (TSX.V: CNU) – Delays at Natividad Leads to Exploration of Other Oaxaca Properties; Fair value estimate lowered to \$0.49 per share

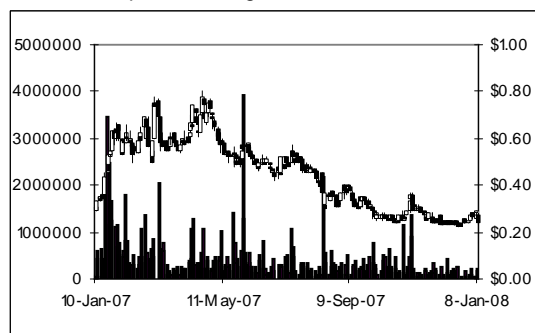
Sector/Industry: Junior Mining

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

#### Market Data (as of January 15, 2008)

Current Price	C\$0.23
Fair Value	C\$0.49 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.215 – C\$0.80
Shares O/S	123,946,503
Market Cap	C\$28.51 mm
Current Yield	N/A
P/E	N/A
P/B	1.42
YoY Return	-47.7%
YoY TSX-V	-1.0%

\*see back of report for rating and risk definitions



#### Investment Highlights

- A 27,000-meter resource expansion-drilling program has been completed at San Jose. Fortuna Silver Mines is the operator, and results are expected shortly.
- Fortuna has begun the mine planning process for San Jose by appointing an experienced Vice President of Development for the project.
- The company has a new VP of Exploration with experience in exploration in Central and South America.
- In the interim, the company has begun exploration at two other properties, Tres Hermanas and Lachiguiri. Both are historic producers with limited exploration completed by Continuum.
- The recent developments relating to the Natividad project have prompted us to take a very conservative approach regarding its valuation. Instead of valuing the project based on our estimate of its resources, we now value the project based on its book value of mineral assets. We have lowered our valuation on the company from \$1.60 to \$0.49 per share. Note that our revised valuation is a very conservative estimate. We will start valuing the Natividad project based on our resource estimates as we get more clarity regarding its prospects.

#### Risks

- Difficulties in drilling, access, and negotiations with the underlying owner has delayed the Natividad resource delineation drilling program. At this time, the company does not have an estimate as to the delivery of the expected NI 43-101 compliant resource.
- The company has earned 70% interest at Natividad, but has been unable to reach an agreement to purchase the remaining 30%. Exploration is on hold. The underlying owner of the Natividad claims has resigned from Continuum's board of directors.

#### Key Financial Data (FYE January 31)

(C\$)	2003	2004	2005	2006	2007	Q3-2008
Cash	672,637	3,870,946	1,618,084	849,155	6,561,706	4,590,807
Working Capital	721,280	3,808,365	1,776,466	462,845	5,553,265	4,960,260
Mineral Assets	526,758	1,994,240	4,410,481	4,435,703	9,188,261	8,358,432
Total Assets	1,286,082	5,929,095	6,452,906	5,577,293	16,130,759	20,112,865
LT Debt / Assets	-	-	-	-	-	-
Net Loss	(241,532)	(1,317,428)	(2,998,039)	(4,066,834)	(3,237,664)	(402,878)
Loss per Share	(0.04)	(0.09)	(0.10)	(0.10)	(0.05)	0.00

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 ten properties. The 24% owned San Jose property has a NI 43-101 compliant resource estimate of 45 million ounces of silver and 336,000 ounces of gold.

**Company Overview**

Continuum has been focusing their exploration efforts in the southern Mexican province of Oaxaca, where they hold over 12 properties. Historically, Mexico is the world’s largest silver producer and has been producing gold and silver for over 500 years. Oaxaca is home to many important past-producers of gold and silver for over 250 years, but much of the mining operations there were very small scale, shallow depth, and used outdated mining methods. Continuum is acquiring large land packages around these past producers and applying modern exploration techniques on a district scale. The company has reactivated exploration on two early stage projects, Tres Hermanas and Lachiguiri, while they deal with delays in exploration at Natividad. The setback at Natividad is definitely a setback for the company, as it is an advanced exploration property with significant potential. However, we believe Tres Hermanas and Lachiguiri are properties of merit that warrant further exploration. However, moving back to earlier stage properties does reflect a change in the stage of the company. In our last report, we discussed the risks of operating in Oaxaca. The intense conflict that escalated in Oaxaca in 2006 has died down, but we believe it still remains a more risky place to operate within Mexico than the more stable, development friendly north.



Source: Continuum Resources

**San Jose Silver-Gold Property**

**Property Overview:** The 47,000 hectare San Jose property is located in the Taviche silver-gold district. The San Jose mine is 43 kilometers south of the city of Oaxaca in southern Mexico and accessible by paved highway. The San Jose deposit has produced silver and gold previously, but no historical production data is available. The vein system at the San Jose mine is exposed for 3 kilometers at the surface, but previous production had only worked on 800 meters strike length and 130 meters depth.

**Joint Venture:** In November 2006, Continuum and Fortuna (TSXV: FVI) finalized the purchase of 100% interest in the project with Fortuna at 76% and Continuum at 24%. A joint venture between the two companies has been formed. This 100% ownership is not subject to any net smelter return (NSR) royalties to any underlying owners.

**Accessibility and Infrastructure:** The San Jose deposit has been in production for many years, and when Continuum and Fortuna acquired the property, production was still occurring. In February 2007, Fortuna and Continuum negotiated the 100% purchase of a 360 tpd flotation mill on site.

**Exploration Work:** Exploration at San Jose has found three principal mineralized veins—Trinidad, Bonanza, and Paloma. Much of the focus of exploration and drilling has been on the Trinidad vein, and a large part of the 2006 drilling program was focused there. However, the company also discovered a new mineralized shoot, San Ignacio, that was drilled in 2006, and Fortuna released the results in December. These high-grade results were not included in the 2007 resource estimate, as the zone has not been properly delineated for the purposes of a resource estimate. These results were high-grade for silver, with very significant gold grades that would be considered economic for mining on a stand-alone basis.

**Resource Estimate:** In March 2007, the company announced an upgraded resource estimate at San Jose. The 2007 resource estimate, shown below, is calculated from all the drilling done to date, 11,904 m in 37 holes, and covers exploration on the Trinidad, Bonanza, Bonanza Splay and Paloma veins and the Stockwork Zone.

Category	Tonnes	Silver grade (g/t)	Gold grade (g/t)	Silver Ounces	Gold Ounces	Silver Eq Ounces
<b>2007</b>						
<b>Indicated</b>	1,470,000	262.0	2.19	12.4 million	104,000	17.7 million
<b>Inferred</b>	3,900,000	260.0	2.57	32.6 million	322,000	49.1 million

**Current Status:** News from San Jose has been slow. They have completed a 27,000 meters drilling program in 2007, but results have not been released. Results are expected shortly. In October 2007, Fortuna announced the appointment of a Vice President of Development for San Jose. Mr. Moseley-Williams has an excellent background, having built several mines in Latin America. His biography follows.

#### **Mr. Mark Moseley-Williams - Vice President of Project Development**

Mr. Moseley-Williams will be responsible for leading the engineering design, feasibility study and mine construction at the high-grade San Jose silver-gold project, located in Oaxaca, Mexico. Mr. Moseley-Williams will be based at the project site. Mr. Moseley-Williams, a citizen of the United Kingdom and Colombia, holds a BSc. Mining Engineering degree from the Colorado School of Mines and an MBA from the Cranfield School of Management in the U.K. Fluent in Spanish and English, he has successfully executed mine construction and expansion projects in challenging environments across North, Central and South America. His most recent position was Manager Corporate Development Latin

America for a senior North American silver mining company. He participated in project valuations and strategic regional decision making, and spearheaded the company's efforts to expand its presence in Latin America.

***Natividad Gold-Silver Property***

**Property Overview:** The Natividad deposit is located 72 km north of the city of Oaxaca by paved highway, and represents the most important gold and silver deposit in the history of Oaxaca. The mine produced approximately 960,000 ounces of gold, and 23 million ounces of silver between 1931 and 1992. However, production began much earlier, in 1780, and total production is likely much higher.

Continuum is able to acquire district scale properties in Oaxaca, and the entire 54,653 hectare Natividad property holds the Natividad deposit, potential extensions of the ore body and other gold and silver prospects to allow exploration of the entire system. Continuum's current objective at Natividad is to define the dimensions of the Northern Extension Zone and calculate a resource estimate for that area, which management believes is as large as the orebody below the fault and may hold a million ounces.

**Ownership:** Continuum currently maintains a 70% interest in the main portion of the Natividad property, although they have acquired 100% in a large land position surrounding the property through staking. Upon reaching 70% interest, Continuum was entered into a joint venture with the underlying owner of the Natividad claims. The company has not been able to negotiate the terms of 100% purchase at this time, and exploration has been halted.

**Accessibility and Infrastructure:** The Natividad mine is easily accessible for its location in Mexico. It is accessible by paved road from Oaxaca, and the community of Natividad has been built up around the portal to the historic mine. However, difficulties in accessing underground workings and completing surface drilling has delayed exploration.

Surface rights have been an issue at Natividad. The company's claims cover land owned by three different municipalities. Continuum has reached land use agreements with Natividad and Xiacui, but not Capulalpan. It appears this community has a long-standing rivalry with the community of Natividad and want redress for perceived injustices created by previous companies who worked in the area. Continuum is negotiating with this community for access.

**Metallurgy:** The company's metallurgical testing indicates Natividad ore is amenable to conventional flotation with >90% recovery.

**Exploration Work:** The company has been focused on delineating a resource in the Northern Extension Zone. When Continuum began exploring the property, exploration in underground tunnels revealed that the mineralization is laterally offset to the north by tens of meters by the Capulalpan fault. The Northern Extension Zone, as it has been named, is untouched and relatively unexplored previous to Continuum's work there. Parallel trending vein systems are also on site. Exploration is working to define the dimensions of this unit, which they estimate to be 500-800 m strike, 500-600 m deep, and 150 m wide.

**Current Status:** The 2007 drilling program was very successful, but did not fully meet its objectives. Only two thirds of the underground Capulalpan target was drilled due to time and drill station availability. The Surface program also only covered two thirds of the Natividad Target due to topography and surface access restraints. Therefore, the resource estimate expected in Q2-2007 has been delayed indefinitely. In addition, exploration has been suspended pending a joint venture agreement between Continuum and the underlying owner.

**Resource Estimate:** In our last report, we had calculated a preliminary estimate of potential resources based on the company's drilling results and the known dimensions of the Northern Extension Zone. We believe the company, while continuing with negotiations on a best efforts basis, has shifted their focus to other properties. We believe there is potential that the issue will not be resolved in a timely manner and that the company may have to write off Natividad.

**Tres Hermanas Property Overview:** Dale Shultz, the new VP of Exploration for Continuum, has chosen Tres Hermanas as his priority property for exploration from Continuum's portfolio. The 3,671 hectare Tres Hermanas property is located 50 kilometers southwest of Oaxaca city, in a rural/agricultural region. It has been developed with underground workings and has been produced from in the 1920s. The property is of interest due to high grade sampling results as well as potential for hangingwall/footwall mineralization surrounding high-grade polymetallic veins. This would make Tres Hermanas an attractive bulk tonnage target.

**Ownership:** This property is 100% owned by Continuum. They acquired the property through staking in 2003, as part of their regional exploration program in the state of Oaxaca.

**Historic Exploration/Production:** The Tres Hermanas mine was mined by the Spanish in the early 1800s, prior to the Mexican Revolution. When the company acquired the property, they rehabilitated the Level 1 Adit along 50 meters and collected 10 underground samples that were very high grade. These sampling results are highlighted in the table below. This information was taken from a press release dated September 8, 2004.

Sample	Width meters	Silver g/t	Lead %	Zinc %	Meters from portal
T-20704	1.40	94	16.95	0.63	0
T-20705	0.90	118	1.01	0.12	5
T-20706	1.70	26	1.99	5.82	10
T-20707	0.60	449	5.68	13.60	15
T-20708	0.90	276	1.93	11.90	20
T-20709	1.10	165	2.64	7.20	25
T-20710	0.80	243	3.47	17.00	30
T-20711	1.00	73	0.65	2.50	35
T-20712	0.90	192	2.46	9.80	40
T-20713	0.70	68	2.15	3.53	45

**Accessibility and Infrastructure:** This property is not accessible by road to within 15 minutes of the showings. The remaining 15 minutes is on foot. Should the Tres Hermanas deposit prove to be worthwhile following the first drilling program, the company will invest in road access.

Five levels totaling 120 meters vertical extension have been cut into the polymetallic vein system. Continuum rehabilitated 50 meters of the Level 1 adit in 2004 to provide access to underground workings and complete sampling.

**Geology and Mineralization:** Tres Hermanas is a polymetallic high-grade silver lead zinc vein system. The currently defined dimensions of the main vein are 500 meters along strike, 150 meters down dip, and a vein width of 0.5-1.5 meters. Continuum has sampled the property with great success, indicating high-grade silver, lead, and zinc, with low-grade copper and molybdenum credits. The copper and molybdenum mineralization may be an indicator of a porphyry copper deposit at depth.

**Metallurgy:** Historic metallurgical studies have indicated this ore is amenable to conventional flotation recovery. The company plans to continue metallurgical studies, as polymetallic veins often present unique metallurgical challenges.

**Current Status:** The company has already begun sampling the polymetallic veins and mineralized halos in the hanging wall and footwall. Over the next year, they plan to complete grid surveys, soil geochemistry, sampling, mapping, and geophysics for an estimated cost of \$890,000. We expect exploration drilling to commence in Q2-2008 for an estimated cost of \$750,000. This is subject to further permitting.

**Resource Estimates:** This property does not have any historic or NI 43-101 compliant resource estimates at this time.

**Lachiguirí**

**Property Overview:** The 5,000 hectare Lachiguirí property is located 140 kilometers southeast of Oaxaca City.

**Ownership:** This property is 100% owned by Continuum. It was acquired by staking in 2005.

**Historic Exploration/Production:** Like many properties in Mexico, this property has evidence of small-scale artisanal mining. It is of interest to the company due to highly anomalous to high-grade lead, zinc, and silver sampling results.

**Accessibility and Infrastructure:** This property is located in a more rural area of Oaxaca state, which has advantages and disadvantages.

**Geology and Mineralization:** Mineralization at Lachiguirí are carbonate replacement bodies along a limestone-conglomerate contact with a strike length of 4 kilometers. This property has potential for disseminated, large tonnage mineralization amenable to open pit extraction as well as bonanza grade ore shoots amenable to underground extraction.

**Current Status:** The company has completed geologic mapping, soil sampling, and prospecting. The company plans to complete a geophysics program and drilling in 2008. This program is estimated to take 12 months and has an estimated cost of approximately \$1 million. Drilling is expected in the second half of 2008. We expect the company to complete a NI 43-101 compliant technical report in conjunction with this exploration program.

**Resource Estimates:** This property does not have any historic or NI 43-101 compliant resource estimates at this time.

**Management**

In April 2007, Al Bassham joined the company as a director. To accommodate him, Greig Hutton resigned from the board of directors but remains as the company's president. Mr. Bassham's biography follows.

**Al Bassham - Director**

Mr. Al Bassham has been appointed as a director of the Company. Mr. Bassham has over 32 years of experience in mining, milling and exploration, with an active focus on mine planning and design. Mr. Bassham's work history includes Vice President of Mining for Gammon Lake Resources in Chihuahua Mexico, Project Manager for Shore Gold Diamond Project, and many other junior resource companies.

Larry Dyck, Continuum's Vice President of Exploration, left the company in May 2007. In June, the company has retained a new VP Exploration, Dale Schultz, who is experienced in mineral exploration in Latin America. Mr. Schultz operates a consulting firm based in Quito, Ecuador. According to management, Mr. Schultz will spend approximately 50% of his time working for Continuum. His biography follows.

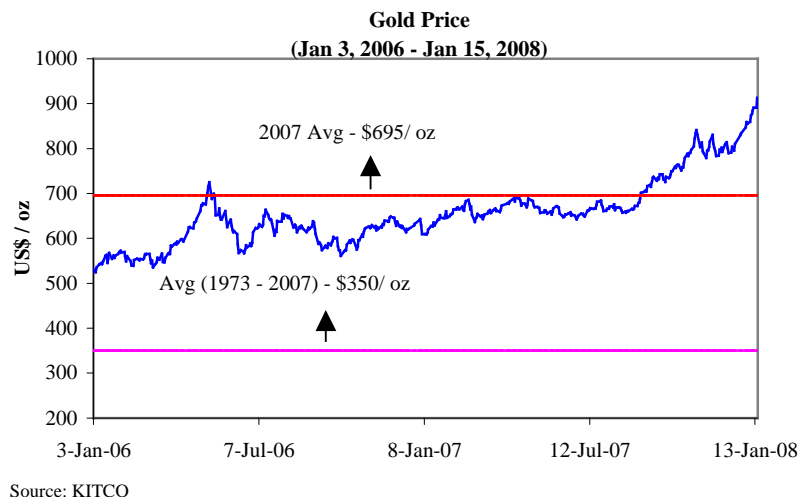
### Dale Schultz, P. Geo – VP Exploration

Mr. Schultz is a registered Professional Geoscientist in Manitoba and Saskatchewan. As a geologist, Mr. Schultz has been involved in projects from the "grassroots" levels through to underground and open-pit mine production environments with a variety of companies including Echo Bay, Noranda, Kinross and Hemlo Gold. As a Senior Consultant with Aurelian Resources Inc. and Linear Gold Corp., he was the lead geologist working on the resource estimation programs for Aurelian's Bonza-Peñas deposit in Ecuador and Linear's Campamento deposit in Chiapas, Mexico. Mr. Schultz is also a founder, director and the Chief Consultant for Buscore Consulting based in Quito, Ecuador.

Mr. Rafael Corral, who was appointed a director in November 2006, has left the board of directors as of September 18, 2007. Mr. Corral holds an equity interest in Minera de Natividad y Anexas S.A. de C.V., the underlying owner of the Natividad Claims.

### Outlook on 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%.



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 slow down 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

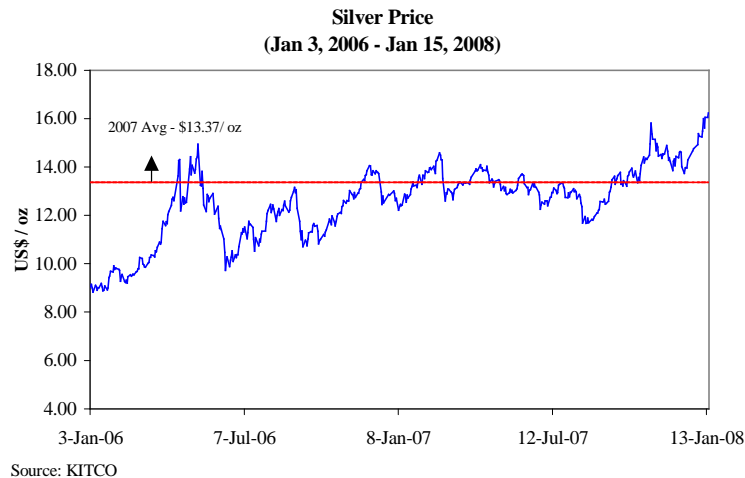
U.S. housing industry. The rate cuts in turn will add to inflationary pressures and simultaneously depreciate the value of the U.S. dollar, which we believe is an ideal condition for gold prices to move higher.

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 a recession. The average revised forecasts for gold prices are US\$825/oz in 2008, and US\$860/oz in 2009. We continue to use a long-term gold price forecast of US\$600/oz in our valuation models.

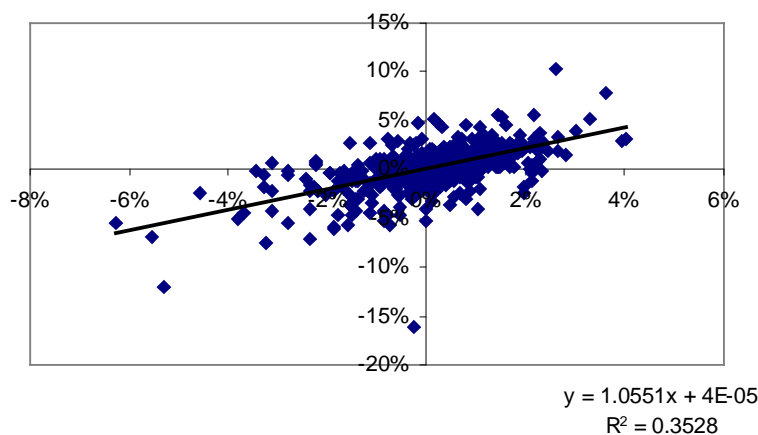
### ***Outlook on Silver***

The chart below shows silver prices since January 2006. As of January 15, 2008, silver was trading at US\$16.24/oz, which reflects a YOY increase of 26%.



Although the supply and demand fundamentals of silver play a key role in setting prices, we believe silver prices will continue to follow gold in the short-term and mid-term. Silver prices have moved in tandem with gold prices in the past (as shown in the chart below), and we believe that this will continue going forward in 2008 and 2009.

**Relationship b/w daily log changes in Gold & Silver prices  
(Jan 3, 2006 - Jan 3, 2008)**



*Our study shows a statistically significant coefficient of correlation (0.59) and  $R^2$  (35.3%) existed between daily log changes of gold and silver prices.*

Our outlook on gold is positive based on a forecasted depreciation in the U.S. dollar, higher inflationary expectations, relatively lower U.S. real interest rates, and high oil prices. Also, we believe that strong investment demand for silver (as of January 2, 2008, iShares Silver Trust assets were 150.80 million oz, which reflects an increase of 618% since the introduction of the ETF in April 2006), amidst decreasing physical demand, will also help prices stay high. The average forecasts for silver prices are US\$15/oz in 2008, and US\$15.50/oz in 2009. We have continued to use a long-term silver price forecast of US\$11/oz in our valuation models.

## Financials

At the end of Q3-2008 (ended October 2007), the company had cash and working capital of \$4.59 million and \$4.96 million, respectively, compared to \$6.56 million and \$5.55 million at the end of FY2007 (ended January 2007). The company reported a net loss of \$1.47 million (EPS: -\$0.01) in the first 9 months of FY2008, compared to a net loss of \$1.90 million (EPS: -\$0.03) in the same period in the previous year. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.90 million per month in the first 9 months of FY2008, compared to \$0.50 million per month in FY2007 (12 – month period). The table below shows the company's cash and liquidity position.

	2003	2004	2005	2006	2007	Q3-2008	2008 (9 mo)
Working Capital	721,280	3,808,365	1,776,466	462,845	5,553,265	4,960,260	4,960,260
Current Ratio	19.96	49.21	18.04	1.88	5.14	63.43	63.43
LT Debt / Assets	-	-	-	-	-	-	-
Burn Rate (per month)	(55,643)	(159,612)	(388,907)	(255,040)	(496,089)	(683,465)	(895,670)
Cash from Financing	1,480,275	5,046,985	2,635,298	2,037,615	11,665,614	909,149	6,090,127

**Stock Options and Warrants:** At the end of Q3-2008, the company had 5.69 million stock options outstanding (0.34 million are currently in the money), with exercise prices ranging between \$0.20 and \$0.55, and maturity dates between May 2009 and October 2012. The

company also had 17.21 million warrants outstanding (none of the warrants are currently in the money), with a weighted average exercise price of \$0.30. The expiry dates of all the warrants have been extended to March 31, 2008. If all the outstanding warrants are exercised before the end of March 2008, the company has the potential to raise up to \$5.16 million. However, note that current share prices are 23.3% below the exercise price of the outstanding warrants.

**Recent Financing:** During the 9-month period ended October 31, 2007, the company raised \$5.73 million and \$0.47 million from the exercise of 19.75 million share purchase warrants and 1.72 million stock options, respectively.

**Conclusion:** At the end of Q3-2008 (ended October 31, 2007), the company had cash of \$4.59 million. Based on a burn rate of \$0.90 million per month, we believe the company will have to raise additional capital by mid-2008 to fund its exploration activities. The company will have not have to raise any capital in 2008 if all the outstanding warrants (expiring in March 2008) are exercised.

### Valuation

The developments relating to the Natividad project have prompted us to take a very conservative approach regarding its valuation. Instead of valuing the project based on our estimate of its resources, we now value the project based on its book value of mineral assets. As a result, our average valuation on the company dropped significantly from \$1.65 to \$0.49 per share.

Valuation Summary	
San Jose Project	\$0.24
Other Projects	\$0.21
Working Capital	\$0.04
Debt	-
<b>Net Value</b>	<b>\$0.49</b>

Our valuation on the company's interest in the San Jose project dropped from \$32.78 million (\$0.28 per share) to \$29.68 million (\$0.24 per share) as we raised our capital cost estimates (from \$35 million to \$45 million), offset by an increase in our annual production rate forecasts.

<b>San Jose Project - Real Options Valuation Model</b>					
<b>Inputs relating the underlying asset</b>					
Estd. Mineral Resources (in tonnes)			3,420,000		
Estd. Value of Minerals if extracted today (op cost of \$50/tonne)			\$270,882,338		
Annualized Standard Deviation of Mineral prices			28%		
Capital Investment			\$45,000,000		
Estd. Mine Life (years)			11		
Riskfree Rate			4.26%		
<b>Output</b>					
Stock Price	\$270,882,338	T. Bond rate	4.26%		
Strike Price	\$45,000,000	Variance	0.08		
Expiration (in years)	11.07142857	Annualized div yield	5.28%		
d1 =	2.27	d2 =	1.34		
N(d1) =	0.99	N(d2) =	0.91		
Value of Option	\$123,682,181				
CNU's Value of Option (24%)	\$29,683,723				
No of outstanding shares	123,990,851				
<b>Value per Share</b>	<b>\$0.24</b>				

We valued all other projects (including the Natividad project) based on the average ratio of enterprise value (EV) to mineral assets.

<b>Comparables Valuation</b>						
Company	Symbol	Price	Enterprise Value	Mineral Assets	EV / Min. Assets	
1	Oro Gold Resources	OGR	\$0.60	9,378,591	2,163,312	4.34
2	Tumi Resources	TM	\$0.63	14,771,925	3,751,145	3.94
3	Golden Goliath Resources	GNG	\$0.30	10,984,945	3,853,169	2.85
4	Soho Resources Corp.	SOH	\$0.22	14,658,905	12,767,938	1.15
5	Continuum Resources	CNU			8,358,432	
					<b>Average</b>	<b>3.07</b>
<b>Fair Value per share</b>						<b>\$0.21</b>

\* Share prices are as of January 15, 2008

\* Expected Mineral Assets at the end of 2007

Based on an average ratio of 3.07, we have valued all the projects of Continuum (except the San Jose project) at \$0.21 per share.

### **Conclusions & Rating**

The company has revived two early stage exploration projects, Tres Hermanas and Lachiguiri, with excellent potential. We believe the company's share price has fallen due to the issues at Natividad and slow news flow from San Jose, but still represents a buy based on the 24% interest in San Jose alone.

**Based on our revised valuation models, we reiterate our BUY rating, and lower our fair value estimate on the company from \$1.65 per share to \$0.49 per share.**

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

- Like any other exploration company, CNU does not have any operating mines and hence does not generate any revenues or positive 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.

**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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