

April 6, 2009

*A clarion is a medieval trumpet that had clear, shrill tones. Trumpets were often used to get people's attention when making announcements. We are also using "clarion" in the context of making announcements, as well as being thought-provoking when sharing our information and opinions with those people who are interested in new investment ideas.*

### for your Information

In October 2008, eResearch was approved by the Ontario Securities Commission as a Limited Market Dealer.

To the best of our knowledge, eResearch is currently the only existing firm that is registered with the OSC as both a Securities Adviser and as a Limited Market Dealer. The business activities and operations associated with eResearch's registration as a Securities Adviser are carried out solely by its Research Services division, which provides research and analysis to the investment community. The business activities and operations associated with eResearch's registration as a Limited Market Dealer are carried out solely by its Capital Services division, which engages only in capital market services with Corporate Issuers and Accredited Investors.

eResearch does not manage money or trade with the general public which, combined with the full disclosure of all fee arrangements, the strict application of its Best Practices Guidelines, and the creation of an effective "Chinese Wall" between the Research Services and the Capital Services divisions, eliminates potential conflicts of interest.

## Topic: Global Research Analyst Settlement

Five years ago, a ground-breaking settlement was reached with a consortium of U.S. regulators and, originally, ten investment banking firms (two firms were added a year later), whereby a monetary payment of US\$1.5 billion was made to settle charges that the investment banking departments of those firms were exerting undue influence over the recommendations being made in research reports written by those firm's equity research department analysts.

The regulators asserted that this influence caused the analysts to write positive research reports despite, in many instances, the analysts' misgivings about the companies and their businesses. These optimistic up-beat reports were designed to win the highly-lucrative corporate finance business for the firm's investment banking department. In fact, analyst bonuses were often tied directly to the degree of success of winning that corporate finance business. Those analysts who tried to do the right thing were usually pressured to initiate coverage on new companies, write glowing reports, and suppress negative comments.

As part of the settlement, the dozen firms (dare we call them "the Dirty Dozen"?) were required to fund the distribution of third-party, independent research, which would be made available free to the firm's brokerage clients for five years (ending in April 2009). The intention was to give the brokerage clients additional perspectives, opinions, recommendations, etc. on the same companies that the brokerage firm's own research departments wrote about.

A key part of the settlement was that there was to be a real and permanent wall, a true physical separation, between the investment banking department and the equity research department. Also, the compensation of the equity research department analysts was to be based solely on analytical abilities and research quality, and not tied in any way to activities conducted by the investment banking department. In addition, analysts were no longer allowed to accompany investment bankers on "road shows" to pitch for investment banking business.

So, five years later, as the time requirement for mandated independent equity research comes to an end, what has been the result of the exercise?

Unquestionably, the professionalism and integrity of the equity research analyst has been restored. The public now has confidence that the investment bankers no longer hold sway over the equity analysts.

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**Stock  
of the  
Week**

Will return next week.

The fall-out from the ending of the five-year settlement period is, perhaps, the following:

- (1) The equity research department, which provides support services and, therefore, is a cost centre insofar as it does not generate any revenue, can no longer look to the fee-generating investment banking division for funding (unless it were to charge the investment banking department directly for undertaking research on its behalf; but this is not likely to happen since the investment bankers have their own “analysts”). Thus, how does the equity research department adequately fund themselves long-term?
- (2) Without the excessive funding from the investment banking department, equity department analysts saw their compensation, particularly their avariciously excessive bonuses, shrink. As a result, they bolted out the equity research door into the waiting arms of the (then) increasingly successful and influential hedge funds, which were only too eager to grab the most talented analysts and over-compensate them in their own image.
- (3) With the ending of the mandated period for the Dirty Dozen to provide support payments for providing third-party independent research, will the independent equity research firms survive? The answer to that may already have been given, since the largest independent research provider in the United States, J.M. Dutton & Associates, ceased operating in February this year. Also, InvestTrends, another large U.S. independent research provider, likewise shut down their research operations.
- (4) The settlement has resulted in the shrinkage in the number of analysts now plying their trade on Wall Street. This, in turn, means that there is less research available for both the retail and institutional investor markets.

Since third-party research does not seem to have been eagerly embraced by investors in the United States, based on what is currently happening there, it now seems unlikely that there will be a large independent equity research industry south of the border. However, those that survive should be able to carve out a profitable niche for themselves.

At eResearch, we foresaw years ago that, to grow and prosper, we had to think “outside the box” and provide additional services. Attaining our Limited Market Dealer license and forging strategic alliances were the result.

***Bob Weir***

Bob Weir, B.Sc., B.Comm., CFA  
Managing Director, Research Services

**New eResearch  
Material Since  
March 23, 2009:**

**1. Initiating Reports**

[Wavefront Technology Solutions Inc.](#)  
**04/01/2009**

[Seacliff Construction Corp.](#)  
**04/01/2009**

**2. Update  
Reports/Analyst  
Commentaries/  
Bulletins**

[A-Cap Resources](#)  
**03/24/2009**

[Sage Gold Inc.](#)  
**04/01/2009**

[Synergex Corporation](#)  
**03/31/2009**

[Anglo-Canadian Uranium Corp.](#)  
**03/30/2009**

[NioGold Mining Corp.](#)  
**03/25/2009**

[Colt Resources Inc.](#)  
**(03/25/2009)**

**Analyst Articles**

[March Madness](#)  
**03/23/2009**

In addition to these reports and articles, our full complement of research is available at [www.eresearch.ca](http://www.eresearch.ca)

## BriefCase

### *NewsBytes from March 30 – April 3, 2009*

Complete coverage on these companies is available at [www.eresearch.ca](http://www.eresearch.ca). For the latest eResearch publications, see sidebar opposite.

**Mosquito Consolidated Gold Mines Limited (\$0.395 - March 30, 2009; MSQ-TSX-V) ....** Mosquito Consolidated Gold Mines has received the completed metallurgy report on the Company's CUMO molybdenum project in Idaho. The results show better-than-expected recoveries in all parts of the deposit and confirm that even at the low-grade end the recoveries are excellent. For further details, see Mosquito's March 30, 2009 news release on SEDAR at [www.sedar.com](http://www.sedar.com).

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**Petaquilla Minerals Ltd. (\$0.44 - March 30, 2009; PTQ-TSX) ....** Petaquilla Minerals has closed its convertible senior secured notes financing, having issued 40,000 notes with gross proceeds of US\$40,000,000. Each note in the principal amount of US\$1,000 is convertible into common shares at C\$2.25 per share. The annual rate of interest is 15%, with the first 12 months' interest being prepaid in full at the time of the issuance of the note. See Petaquilla Minerals' March 30, 2009 news release at [www.sedar.com](http://www.sedar.com). In connection with the financing, the Company has agreed to reduce the exercise price of 23,836,800 share purchase warrants from C\$2.30 per share to C\$0.65 per share, provided that, under the revised terms, if the common shares of the Company trade at a weighted-average trading price of C\$1.00 or more per share for 30 consecutive trading days, the holders of the warrants must exercise the warrants within 30 days (see Petaquilla Minerals' April 2, 2009 news release at [www.sedar.com](http://www.sedar.com)).

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**Bio-Extraction Inc. (\$0.47 - April 2, 2009; BXI-TSX-V) ....** Bio-Extraction announced that the Company has successfully produced at pilot scale a unique and high-value canola protein isolate and hydrolyzed protein concentrate. Third-party product testing suggests that the isolate (ISOLEXX™) is superior across a range of parameters when compared to soy protein isolates that currently dominate the vegetable protein market. Further details are contained in Bio-Extraction's April 2, 2009 news release, available at [www.sedar.com](http://www.sedar.com). Bio-Extraction announced earlier (March 31, 2009) that it had begun commercial delivery of the Company's oil and meal products from its canola processing facility in Saskatoon, Saskatchewan. The Company began 24-hour-per-day production on March 30.

## Opportunity Knocks

These are challenging times, and we at eResearch are not immune to what is happening all around us. But, we are adapting to this difficult operating environment. In this respect, we need more business development personnel. Anyone with a penchant for sales, please contact us.

Also, having recently become a Limited Market Dealer, our Capital Services division requires someone with financing experience to lead our efforts.

If you are interested in either of the above, I can be reached at [bweir@ereseach.ca](mailto:bweir@ereseach.ca).

"Research is the bedrock underpinning all capital markets"

## eResearch and Objective Capital Collaboration

eResearch Corporation of Toronto and Objective Capital Research Limited of London and New York are pleased to announce that the two providers of issuer-sponsored research have agreed to collaborate in their efforts to increase awareness of the advantages to small- and mid-cap companies of receiving fair and impartial research coverage.

Each company will house the research material of the other on its website, and will distribute each other's research through its own proprietary distribution network.

eResearch and Objective Capital share a common mission: To provide quality investment research using high standards of objectivity, and culminating in sophisticated in-depth research written by knowledgeable and experienced analysts to ensure the research is a credible resource that investors can rely on.

Unlike traditional brokerage firms that limit their research distribution to their commission-paying clients, our respective research is widely disseminated free-of-charge through our own proprietary extensive distribution network.

Objective Capital is a dedicated corporate research firm providing institutional-quality research on under-followed small- and mid-cap companies. It focuses on providing widely-distributed, high-quality corporate research coverage of public and private companies, both listed and pre-listed. It is retained by a company to ensure that its shareholders, as well as the wider investment community, are provided with an objective view of the company's progress.

## Monthly Top Ten

The top ten downloads from [www.ereseach.ca](http://www.ereseach.ca) for March, 2009:

1. The Clarion: March 2, March 9, March 23, and March 30
2. Synergex Corporation Update Report, March 10
3. Mosquito Consolidated Gold Mines, Bulletin, March 19
4. Article: The Nickel Market, February 24
5. Royal Roads Corp., Bulletin, March 5
6. Sage Gold Inc., Bulletin, March 13
7. Grandview Gold Inc., Initiating Report, October 17, 2007
8. Colt Resources Inc. Update Report, March 25
9. A-Cap Resources Limited, Update Report, March 24
10. Quorum Information Technologies Inc., Initiating Report, March 9

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