

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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## Explor Resources Inc. (TSXV: EXS) – Update – Drilling at Eastford Lake Returns Assay of 142.26 g/t Gold over 3.0 Meters

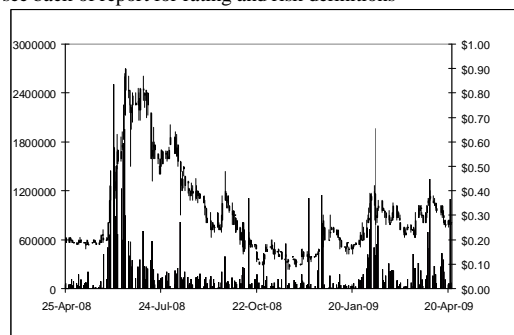
Sector/Industry: Junior Mining

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

### Market Data (as of April 28, 2009)

Current Price	C\$0.26
<b>Fair Value</b>	<b>C\$0.30</b>
<b>Rating*</b>	<b>HOLD</b>
<b>Risk*</b>	<b>5 (Highly Spec)</b>
52 Week Range	C\$0.08 – C\$0.90
Shares O/S	59.62 mm
Market Cap	C\$15.50 mm
Current Yield	N/A
P/E	N/A
P/B	2.1
YoY Return	30.0%
YoY TSXV	-59.7%

\*see back of report for rating and risk definitions



### Key Financial Data (FYE - April 31)

(C \$)	2008	2009 (9 mo)
Cash	733,447	1,226,205
Working Capital	832,044	1,242,782
Mineral Assets	4,780,288	7,486,832
Total Assets	6,760,289	8,797,074
Net Income (Loss)	(948,890)	(500,720)
EPS	(0.03)	(0.01)

### Investment Highlights

- Explor is currently engaged in the exploration of 3 properties in Ontario and Quebec in the Abitibi Greenstone Belt.
- The Abitibi Greenstone Belt is known for its richly mineralized deposits, and has historically produced over 180 million ounces of gold, and 450 million tonnes of copper and zinc ore.
- Diamond drilling on the Eastford Lake property intersected 3.0 meters grading 142.26 g/t Au.
- Recently acquired PG 101 gold property is located in the Larder Lake Mining Division; diamond drilling recently commenced.
- Massive sulphides intersected on Kidd Township property.
- EXS raised \$2.71 million during November 2008 – February 2009 (when most other junior mining companies were having problems raising capital); indicating investors' confidence in the company and its projects. We believe current cash will be sufficient to fund exploration and working capital for the next 12 months.
- **Successful drilling on their properties, and the ability to raise capital in current market conditions has increased our confidence in the company. Although the company hit very high grade intervals in the 7 series holes on the Lynx Gold Zone, it is hard for us to quantify the impact on valuation without more data, and we maintain our HOLD rating. However, speculative and highly risk tolerant investors may wish to accumulate shares now if they wish to speculate that the company will continue to hit similar grades.**

*Explor Resources Inc. is a Quebec based mineral exploration company that has assembled a portfolio of grassroots and early stage exploration drilling properties in Ontario, Quebec, and Saskatchewan. The company is focused on the exploration of gold and base metals in the Abitibi Greenstone Belt.*

**Eastford Lake  
Property**

**Lynx Gold Zone:** The company followed up the Lynx gold zone discovery hole #7 reported in our initiating report by wedging off three holes 7A, 7B and 7C based on a mise à masse down hole survey. The company has also provided previously unreleased assay data for holes #8 through #15 which was unavailable at the time of our initiating report. Highlights, including the original discovery hole, are summarized below in Table 1.

**Table 1**

Hole #		From (m)	To (m)	Interval (m)	Au (g/t)
Hole #7		404.00	416.00	12.00	16.60
And		528.00	530.00	1.50	5.70
Hole #7A		407.00	408.00	1.00	5.03
And		429.00	430.00	1.00	6.47
Hole #7B		405.00	406.00	1.00	3.28
And		425.70	429.00	3.30	45.45
Hole #7C		406.00	408.00	2.00	13.12
And		427.00	430.00	3.00	142.26
Hole #10		453.50	455.00	1.50	11.30
And		467.00	471.00	4.50	3.34
Hole #13		426.70	429.50	2.80	4.30

(Source Explor Resources Inc.)

All holes from #7 through #15 intersected gold mineralization with only hole #14 intersecting insignificant quantities of gold. Several intersections are very encouraging, particularly 45.45 g/t over 3.3 meters in Hole #7B and 142.26 g/t over 3 meters in hole #7C. Drill hole intersections seem to indicate two zones of mineralization at separate depths. To date, the drilling has defined the Lynx Gold Zone over a distance of approximately 6 meters.

Visible gold was encountered in holes #7, #7B and #7C, which the company believes indicates the main vein of the Lynx Gold Zone. The vein appears to strike north-northwest and dips steeply to the south-southwest.

**We are encouraged by the high grade intersections encountered in the wedged off holes. However, we would like to see similar results from the current drill program to build confidence in project's potential as a deposit.**

**Current Status:** The company has recently completed initial modeling of the holes intersecting the Lynx Gold Zone. A total of 11,513 meters of drilling has been completed on Eastford lake, including holes #16, #17 and #18, which are currently being assayed and were designed to determine the plunge and follow the structure to depth.

**At a depth of over 400 meters, drill testing the Lynx Gold Zone from surface is not efficient. We expect the company will perform additional wedged off drill holes to reduce costs.**

**PG 101**

**New Property Acquisition:** On December 18, 2008, the company announced the acquisition of the PG 101 mineral claims package situated in Holloway and Mariott Townships in the Larder Lake Mining Division, District of Cochrane, Ontario. The claim package totals 1,626 hectares.

**Ownership:** The company will pay \$0.30 million and issue 1 million common shares to the vendor over a 3 year period for an option to acquire an initial 50% interest; after which time the company will have the option to increase its interest to 70% by the payment of \$1 million. The vendor retains a 2.0% net smelter royalty in the property.

**Regional History:** St. Andrew Goldfield's (TSX: SAS) former producing Holt Mine property lies immediately to the west and their Holloway Mine property is also in close vicinity. From 1988 to 2004, Holt Mine production totaled 7.42 million tonnes at 5.6 g/t Au while the Holloway Mine produced 4.29 million tonnes at 5.7 g/t Au.

**Historic Exploration:** Historic work on the property appears to be somewhat minimal; however, an induced polarization (IP) geophysical survey was completed in 1988 defining 11 anomalies with potential for drill targeting.

**Geology:** A succession of mafic volcanic flows, breccias and tuffs known to host gold deposits in the area underlies the PG 101 claim. The volcanic rocks are cut by east-northeast trending faults that splay from the Destor-Porcupine fault zone, creating prospective geological conditions for gold mineralization.

**Current Status:** The company recently completed its assessment of historical data and subsequently initiated drilling on the property. The phase I drill program will systematically test the 11 IP anomalies defined by the historical IP survey.

Thus far, two holes have been drilled testing an anomaly in the area of a regional northeast trending graphitic shear. Hole PG101-09-01 intersected four zones of gold including a high grade section of mineralization in high iron basalt with quartz carbonate veining. Hole PG101-09-01 was drilled in the same structure 400 meters southwest but did not return significant assays. Highlights of Hole PG101-09-01 are presented below in Table 2.

**Table 2**

Hole #		From (m)	To (m)	Interval (m)	Gold (g/t)
09-Jan	Zone 1	91.30	92.00	0.70	3.10
	Zone 2	93.50	94.20	0.70	1.93
	Zone 3	122.00	125.00	3.00	52.01
	Zone 4	132.50	134.75	2.25	1.95

(Source Explor Resources Inc.)

**We feel it is very encouraging to see the company intersect high grade mineralization in the first hole drilled on the property as it warrants further work be completed to test the size of the target.**

**Kidd Township Property** **Phase I Drilling:** In our initiating report, we discussed the phase I 5,000 meter drill program designed to better understand the location of structural targets. To date, the company has completed 3,567 meters of drilling in Phase I.

Hole #KI-08-03 encountered volcanics at 213 meters down-hole and a 1.1 meter section of massive sulphides at 339 meters down-hole. Assay results on hole #KI-08-03 returned a 1.5 meter section of 175 ppm Cu and 906 pm Zn.

The Kidd Creek mine to the north west of the property is known for polymetallic production meaning the intersections of a massive sulphide section is encouraging; however, we are cautious to be overly optimistic about the discovery as assay results were low. The intersection does however, provide a future drilling target.

**Current Status:** Further drilling is not being completed on the property at the time with work focusing on analyzing current data and performing downhole geophysics. **In our opinion, this is a sound strategy as cash can be used to fund drilling on Eastford Lake and PG-101, properties which have more immediate potential.**

**Carnegie Property** **Additional Claims Acquisition:** On October 24, 2008, the company announced the acquisition of an additional two mineral claims totaling 12 mineral units located in Carnegie Township but not contiguous with the previously owned land. The company now holds a total of 74 mineral units in Carnegie Township covering 1,186.25 hectares.

Similar to the claims already held by the company, the new land is within a greenstone belt composed predominantly of meta-volcanics cut by northwest-southeast trending faults and deformation zones. A number of untested megatem airborne survey anomalies are documented and will be the subject of future exploration.

**Financials** At the end of Q3-2009 (end of January 2009), the company had \$1.23 million in cash and \$1.24 million in working capital. In the first nine months of FY2009, Explor reported a net loss of \$0.50 million (EPS: \$0.01). We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.31 million per month in the first nine months of FY2009, compared to \$0.31 million per month in FY2008 (12-month period). The following table shows the cash and liquidity position at the end of Q3-2009.

<b>(in C\$)</b>	<b>2008</b>	<b>2009 (9 mo)</b>
Working Capital	832,044	1,242,782
Current Ratio	11.0	21.1
LT Debts/ Assets	-	-
Burn Rate Per Month	(310,400)	(311,672)
Cash from financing activities	5,453,991	2,240,313

**Subsequent Financing:** In February 2009, the company announced it had closed a non-brokered private placement of \$1 million by issuing:

- 3.49 million non flow-through units (at a unit price of \$0.19), where each unit consists

- of one common share and one common share purchase warrant (exercise price - \$0.24, maturity period – 2 years)
- 1.77 million flow-through units (at a unit price of \$0.19), where each flow-through unit consists of one flow-through common share and one-half of one warrant (exercise price - \$0.24, maturity period – 2 years)

**Overall, the company has raised a total of \$2.71 million since the end of Q2-2009 (quarter ended October 2008).**

**Stock Options and Warrants:** At the end of January 2009, the company had 5.10 million stock options outstanding with exercise prices ranging from \$0.20 to \$0.35. The company also had 18.73 million warrants outstanding with exercise prices from \$0.22 to \$0.50, and maturity periods between February 2009 and December 2010. Subsequent to January 2009, the company issued 3 million stock options to directors and consultants at \$0.20 with an expiry date in March 2014. We estimate about 5.79 million options and 2.55 million warrants are currently in the money. **About 8 million warrants (exercise price of \$0.30) and 1.34 million options (exercise price of 0.20) expire in May 2009. Therefore, Explor has the potential to raise up to \$2.67 million by May 2009 if the options and warrants are exercised.**

**Conclusion:** We believe the company is in a sound cash position. The fact that it has been able to raise \$2.71 million during November 2008 – February 2009 (when most other junior mining companies were having problems raising capital) shows investors' confidence in the company and its projects. We believe current cash will be sufficient to fund exploration and working capital for the next 12 months.

### **Valuation**

Although the company has made good progress since our initiating report, its projects are still in early stages. Therefore, we have continued to value the company based on the average ratio of enterprise value (EV) to mineral assets (book value) of its peers.

<b>Comparables Valuation Model</b>			
	<b>Company</b>	<b>SYM</b>	<b>EV/Mineral Assets</b>
1	Canstar Resources Inc.	TSXV: ROX	3.84
2	Explor Resources Inc.	TSXV: EXS	2.08
3	Canadian Orebodies Inc.	TSXV: CO	1.10
4	Abitex Resources Inc.	TSXV: ABE	0.99
5	Beaufield Resources Inc.	TSXV: BFD	0.29
6	Fieldex Exploration Inc.	TSXV: FLX	0.24
<b>Average:</b>			<b>1.42</b>
<b>Fair Value:</b>			<b>\$0.23</b>

Note: EV was calculated based on 12 month average share prices

**Conclusions & Rating**

Since our initiating report, the average EV/Mineral Assets ratio has dropped from 2x to 1.4x (as shown in the table above), as the share prices of its peers dropped during the period, which resulted in a drop in our fair value estimate from \$0.30 to \$0.23 per share.

Since we believe the drop in share prices of comparable companies do not reflect their fundamentals, and since we believe that the fundamentals of EXS have actually improved since our initiating report, we have maintained our fair value estimate at \$0.30 per share despite the drop in valuation.

**Successful drilling on their properties and the ability to raise capital in current market conditions have increased our confidence in the company. However, we would like to see continued positive results. Investors should note that continued positive results from the Lynx gold zone and PG101 will significantly increase EXS's upside potential.**

Although the company hit very high grade intervals in the 7 series holes on the Lynx Gold Zone, it is hard for us to quantify the impact on valuation without more data, and we maintain our HOLD rating. **However, speculative and highly risk tolerant investors may wish to accumulate shares now if they wish to speculate on the company continuing to hit similar grades which we believe will result in upside.**

**Risks**

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

- The company's projects are in very early stages and have no resource estimates.
- The success of drilling, project development, and resource expansion are important long-term success factors for the company.
- As with other junior mining companies, the company has to complete financings to continue exploration. This may be difficult in current market conditions.

**We continue to rate the shares Risk 5 (Highly Speculative).**

**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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