

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA
Analyst

Vincent Weber, B.Sc.
Research Associate

Kevin Liu, BBA, B.Sc.
Research Associate

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Garson Gold Corp. (GG: TSX-V) – Positive Preliminary Assessment received on New Britannia Mine; Strategic Alliance With Takara Resources – FINAL REPORT

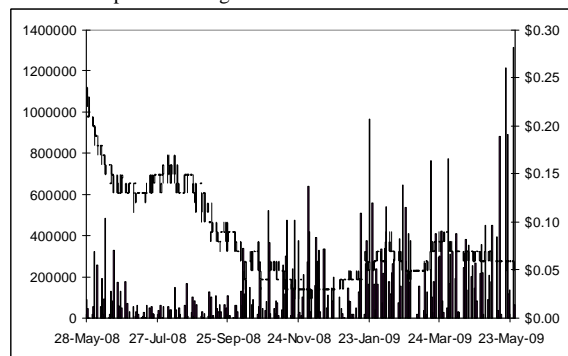
Sector/Industry: Junior Mining

www.garsongold.ca

Market Data (as of May 27, 2009)

| | |
|---------------|-------------------|
| Current Price | C\$0.055 |
| Fair Value | C\$0.30 (↓) |
| Rating* | BUY |
| Risk* | 5 (Highly Spec) |
| 52 Week Range | C\$0.05 – C\$0.16 |
| Shares O/S | 156,006,191 |
| Market Cap | C\$8.58 mm |
| Current Yield | N/A |
| P/E | N/A |
| P/B | 0.36 |
| YoY Return | -75.0% |
| YoY TSXV | -58.8% |

*see back of report for rating and risk definitions



Investment Highlights

- The company is in receipt of an NI 43-101 compliant Preliminary Assessment to mine approximately 900 tonnes per day from the No. 3 zone at their 100% owned New Britannia Mine. After tax NPV at a 10% discount is \$6 million, and \$7.74 million at an 8% discount with pre-production capital expenditures of \$22.33 million and sustaining capital expenditures of \$13.95 million.
- Average cash operating costs are estimated at US\$362 per ounce of gold.
- The company has entered into a strategic alliance with Takara Resources Inc. (TSX.V: TKK) strengthening the company's management and acquiring several early stage projects in Canada.
- In March 2009, the company raised \$0.58 million (in two tranches) by issuing 11.69 million units at a unit price of \$0.05.
- We estimate the company has to raise another \$1.77 million this year to fund working capital and proposed exploration expenditures for the rest of 2009. We estimate current cash will only last for two months.
- We maintain our BUY rating on the company but lower our fair value estimate from \$0.57 per share to \$0.30 per share. The valuation dropped due to share dilution and an increase in our operating and capital cost estimates.

(all figures are in C\$ unless otherwise stated)

Key Financial Data (FYE July 31)

| (C \$) | 2007 | 2008 | 2009 (6 mo) |
|-------------------------------|-------------|-------------|-------------|
| Cash & Marketable Securities | 5,749,480 | 1,470,005 | 380,998 |
| Working Capital | 2,590,734 | 1,413,412 | (195,821) |
| Property, Plant and Equipment | 2,811,317 | 2,812,505 | 2,817,514 |
| Mineral Assets | 5,328,401 | 13,287,623 | 14,652,430 |
| Total Assets | 30,643,374 | 34,439,991 | 34,288,990 |
| Net Income (Loss) | (2,306,388) | (2,763,445) | (1,665,633) |
| EPS | (0.07) | (0.03) | (0.02) |

Garson Gold Corp. holds 100% interest in the New Britannia Mine and related infrastructure. This property has operated as recently as 2005, and the entire mining infrastructure is still in place. The company has recently received a positive Preliminary Assessment on re-activating the mine based on mining of the No. 3 Zone.

***Preliminary
Assessment*****Summary**

Subsequent to our most recent note, the company has continued to advance the New Britannia Mine towards production with the completion of an NI 43-101 compliant Preliminary Assessment (“PA”). The PA, completed by Micon International Limited (“Micon”) evaluated re-activation of the 2,150 tonne per day mill to process ore from the No. 3 Zone located approximately 1.5 km away. Micon estimates operating costs of US\$362/ounce and an after tax NPV of \$6 million at a 10% discount rate and \$7.74 million at an 8% discount rate. **The No. 3 Zone was chosen for the PA because of the three zones with NI 43-101 resources, it was the most advanced, having the highest probability to increase ounces.**

Mining and Processing the No. 3 Zone

The No. 3 Zone currently hosts an NI 43-101 compliant resource of 394,000 tonnes indicated grading 6.72 g/t, and 575,000 tonnes inferred grading 6.31 g/t; approximately 85,000 ounces and 117,000 ounces respectively. Drilling indicates the No. 3 Zone remains open for exploration potential at depth and to the west.

The mining plan in the PA utilizes all of the indicated resource and a portion of the inferred resource for a total of 753,000 tonnes at an average grade of 6.14 grams per tonne; this equals approximately 149,000 ounces. These resources will be mined at a rate of 907 tonnes per day (1,000 tons per day) for a mine life of approximately 3.8 years. The mill will run at 1,180 tonnes per day (1,300 tons per day) on a 4 day per week basis with recovery estimated at 92%.

Economics

Calculated on the basis of a US\$725/oz gold price, the PA returned an after tax NPV of \$6 million at a 10% discount rate and \$7.74 million at an 8% discount rate (Figure 1).

Pre-production capital expenditures, which include rehabilitation of the mill, and No. 3 zone ramp and surface infrastructure, are estimated at \$22.33 million. Sustaining capital expenditures, which would largely go towards ramp development costs, are estimated at \$13.95 million. These numbers are undiscounted and include a 25% (\$4.15 million) contingency. Operating costs, which include mining, processing and G&A, are US\$362.38/oz.

| | LOM Total (C\$) | NPV (C\$) | | | LOM Average | LOM Average |
|------------------------------------|-----------------|-----------|---------|---------|--------------------------|---------------------------|
| | (undiscounted) | 5% | 8% | 10% | (C\$/ton) (829,846 t) | (US\$/oz) (137,405 oz) |
| Revenue | | | | | | |
| Gross Sales | 119,542 | 102,504 | 93,876 | 88,681 | 144.05 | 725.00 |
| less Refining charges | (824) | (707) | (647) | (612) | (0.99) | (5.00) |
| less Bullion delivery | (876) | (752) | (690) | (652) | (1.06) | (5.31) |
| less Royalty | (1,626) | (1,394) | (1,277) | (1,206) | (1.96) | (9.86) |
| Net Sales Revenue | 116,216 | 99,650 | 91,262 | 86,210 | 140.05 | 704.83 |
| Cash Operating Costs | | | | | | |
| Mining Costs | 35,308 | 30,879 | 28,608 | 27,230 | 42.55 | 214.14 |
| Processing Costs | 11,676 | 10,096 | 9,292 | 8,805 | 14.07 | 70.82 |
| Stockpile rehandle | 50 | 50 | 50 | 50 | 0.06 | 0.30 |
| G&A costs | 6,603 | 5,710 | 5,255 | 4,980 | 7.96 | 40.04 |
| Local Taxes | 750 | 650 | 599 | 568 | 0.90 | 4.55 |
| Contingency | 5,364 | 4,673 | 4,319 | 4,105 | 6.46 | 32.53 |
| Total cash operating costs | 59,751 | 52,049 | 48,111 | 45,724 | 72.00 | 362.38 |
| Net Cash Operating Margin (EBITDA) | 56,465 | 47,601 | 43,151 | 40,486 | 68.04 | 342.45 |
| Capital Expenditures | | | | | | |
| Initial/expansion capital | 22,330 | 21,638 | 21,249 | 21,000 | 26.91 | 135.43 |
| Sustaining capital | 13,946 | 12,236 | 11,354 | 10,817 | 16.81 | 84.58 |
| Changes in Working Capital | 0 | 193 | 279 | 327 | 0.00 | 0.00 |
| Net cash flow before tax | 20,189 | 13,534 | 10,269 | 8,342 | 24.33 | 122.44 |
| Taxation payable | 3,552 | 2,867 | 2,534 | 2,338 | 4.28 | 21.54 |
| Net cash flow after tax | 16,637 | 10,667 | 7,735 | 6,004 | 20.05 | 100.90 |

Figure 1: Preliminary Assessment Economic Analysis (Source: Garson Gold Corp.)

Conclusions

There are a number of factors to consider when analyzing the PA and considering the seemingly small C\$6 million discounted NPV: The PA was only evaluated for a single satellite deposit of the New Britannia Mine, the No. 3 zone which only hosts a portion of the total 43-101 compliant resources calculated for the project; there are several additional areas within 2 km of the mill site with available resources; the company is anticipating the calculation of a 43-101 resource estimate for the Boundary Zone (see Figure 2). Mineralization is interpreted as a series of stacked lenses, a portion of which may be amenable to open pit mining. With mineralization being intersected over a vertical depth of 5 to 150 meters below surface, and drill intersections such as 2.09 g/t over 10.33 metres starting at 21.51 metres (this is down hole depth and is approximately 18 meters vertical depth from surface) in hole BDY08-77, we believe this is a definite possibility. Additionally, as the only local modern precious metal processing facility, the New Britannia mill could serve other mining projects such as the HudBay Minerals Inc. (TSX: HBM) Lalor deposit.

While we would expect additional capital costs to mine additional zones, **we would also expect the additional resources to have a positive effect on project economics.** If open pit resources at the Boundary zone return sufficient numbers – such as a year’s worth of production – we believe, the company could start mining there with possibly lower re-activation capital expenditures.

The main purpose of the PA was to evaluate the economic viability of re-activating the New Britannia mill, which was achieved. Realistically, we note the company does not have to reopen the mine solely based upon the current status of resources at the No. 3 zone (i.e., the company might further define resource before eventually reopening the mine). However, with the positive assessment, the company now has the confidence to continue to push the project forward by further advancing resources. We would like to see the company look to begin production by 2011, in order to capitalize on the current upswing in gold prices. We expect gold prices to converge to our long-term forecast of US\$600/oz by 2012 (with the recovery of the U.S. dollar and U.S. economy). The immediate challenge for the company is the same one that is dominating the junior mining landscape: the ability to obtain adequate funding to move the project forward.

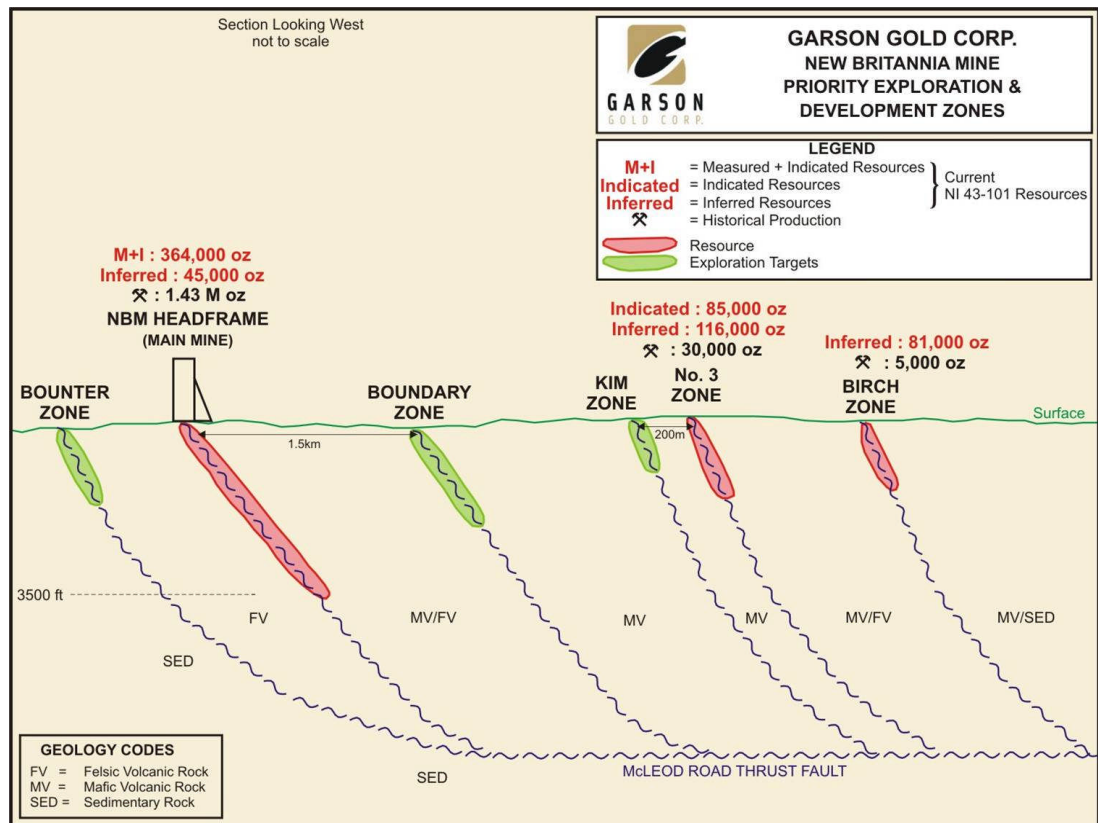


Figure 2: New Britannia Mine Exploration and Development Zones, Looking West (Source: Garson Gold Corp.)

Current Status

Near-term work will involve the completion of a resource estimation at the Boundary zone. Remodeling and updating of resource estimates of the Main Mine and Birch Zone will be completed so they can be added to the PA.

**Strategic
Alliance****Summary**

The company has entered into a strategic alliance with Taraka Resources Inc., a Toronto, Canada based mineral exploration company. As a result of the transactions involved in the strategic alliance, Garson Gold will bolster its management team and acquire several early-stage exploration properties. In respect to the transactions, based on our discussions with management, the company has issued Takara 10 million shares at a value of \$0.05/share, while Takara has issued the company 3 million shares at a value of \$0.03/share. The main focus of the alliance will be to aid the company in re-activating the New Britannia Mine.

Management/Director Appointments

Ms. Julie Lassonde, previously president of Takara, has been appointed to the position of President of Garson Gold. She will assist the company with financing, corporate structuring, increasing marketplace visibility, and project generation. David Tafel, formerly president, CEO and director retains the latter two titles. Ms. Lassonde's biography as provided by the company follows below:

Julie Lassonde, B.Sc – President

Ms. Lassonde has held various positions over the past 12 years in both the financial and engineering fields, including work as a civil engineer with SNC-Lavalin and investment banking experience with Macquarie Bank Ltd. in Australia and the U.S.A. Ms. Lassonde holds a degree in Civil Engineering from Queen's University, and was most recently Vice President of Corporate Development with Southampton Ventures.

The management of Garson and Takara will collectively appoint an Advisory Committee. The company states this committee will be "focused on the re-activation of Garson's New Britannia Mine and a Business Committee focused on identifying new global gold opportunities."

The company has the right to appoint a director to the board of Takara within 12 months of the transaction date.

We feel the company's team of management and directors was weighted towards technical experience and we believe the addition of Ms. Lassonde will aid the company in raising the necessary financing to move the New Britannia Mine forward to Feasibility and eventually production.

Property Acquisitions

As part of the transactions, the company will acquire Takara's interest in several early-stage Canadian gold and lead-zinc-silver projects:

Luciana

Garson acquires Taraka's option to earn 60% interest in the Luciana prospect, a permitted drill-ready property near Lebel-sur-Quévillon, Quebec. In order to earn 51%, the company

must spend \$0.3 million on the property, \$0.12 million of which has already been spent. Expenditures of another \$1 million will bring the ownership interest to 60%. The property straddles the Cameron Shear Zone, a structure associated with gold occurrences and Light Rare Earth Element (LREE) occurrences of lanthanum and cerium.

Ospika

The Ospika property is located 225km west-northwest of Fort St. James BC in the southern extent of the Kechika Trough. The property covers stratigraphy prospective for sedimentary exhalative (“SEDEX”) lead-zinc-silver deposits including the Gunsteel Formation which regionally hosts Teck Cominco’s (TSX: TCK) Cirque and Driftpile SEDEX deposits. The company acquires Taraka’s 100% interest in the project which is subject to a 2% NSR.

Big Bar

The Big Bar property hosts epithermal and brecciated mineralized vein systems and is located 55km west of Clinton BC. Historic grab samples have assayed up to 2.17 g/t gold and up to 45.9 g/t silver. The company acquires Taraka’s 100% interest which is subject to a 2% NSR.

Baez

Baez is located 50km southwest of Nazko, BC and has showings of epithermal alteration. Historic drill core data indicates values up to 6.2 g/t silver and 0.32 g/t gold over 2m.

Outlook on Gold

In 2008, global demand for gold increased by 4% YOY, primarily due to a 64% YOY increase in identifiable investment demand, offset by an 11% YOY drop in demand for jewelry, and a 7% YOY drop in demand for industrial and dental applications (as shown below).

| Global Demand (tonnes) | 2006 | 2007 | 2008 | % ch 2008 vs 2007 |
|--|--------------|--------------|--------------|--------------------------|
| Jewellery | 2,285 | 2,401 | 2,138 | -11% |
| | 67% | 68% | 58% | |
| Industrial and Dental | 459 | 461 | 430 | -7% |
| | 13% | 13% | 12% | |
| Identifiable Investment | 665 | 664 | 1,091 | 64% |
| | 19% | 19% | 30% | |
| Total Identifiable demand | 3,409 | 3,526 | 3,659 | 4% |
| Supply (tonnes) | | | | |
| Mine Supply | 2,076 | 2,026 | 2,044 | 1% |
| Old Gold Scrap and Official Sector Sales | 1,499 | 1,462 | 1,425 | -3% |
| Total Supply | 3,574 | 3,488 | 3,468 | -1% |
| Surplus (Deficit) | 165 | (38) | (191) | |

Source: GFMS and FRC

In 2008, investment demand accounted for 30% of total demand; up from 19% in the previous two years. Investment demand increased significantly in the second half of 2008, when it accounted for 36% of total demand versus only 20% in the first half. These figures clearly indicate investors' tendency to move towards capital preservation assets (such as gold) during periods of high uncertainty and expectations of a devaluation of the global reserve currency – the US\$. The strong investment demand growth, supported by a 1% YOY drop in supply, led to an increase in the global supply deficit to 191 tonnes (up from 38 tonnes) in 2008.

We have maintained our positive near-term outlook on gold prices, and believe prices will stay strong primarily because we expect investment demand to continue to stay strong (amidst softening demand for other applications), with no major increase in supply. The reason why we believe investment demand will stay strong is because we expect the US\$ to depreciate with respect to major global currencies due to the recession, and negative real interest rates in the U.S., and as we believe inflationary pressures in the U.S. will be instigated by large stimulus packages, and low interest rates.

Our forecasts are US\$900/oz for 2009, US\$850/oz for 2010, and US\$725/oz for 2011.

Long-term (2012+) price forecast - Our long-term price forecast, is based on the relationship between the price of gold (during 1980 –2008) and several independent variables, including the US\$, inflation, global annual mine production growth, oil prices, etc. Based on the relevant factors, we arrived at a long-term gold price forecast of US\$600/oz. We expect prices to converge to our long-term forecast, as the US economy recovers and investor confidence improves. Both these factors will result in a drop in the investment demand for gold as investors move their capital from 'capital preservation' assets to investments with higher expected returns.

Financials

At the end of January 2009, GG had \$0.38 million in cash and marketable securities. Working capital deficit and current ratio were \$0.20 million and 0.7x, respectively. We estimate the company had a burn rate (including mineral property costs) of \$0.29 million per month in the first six months of FY2009. The table below shows the company's cash and liquidity position.

| (C \$) | 2007 | 2008 | 2009 (6 mo) |
|--|-----------|-----------|-------------|
| Cash & Marketable Securities | 5,749,480 | 1,470,005 | 380,998 |
| Working Capital | 2,590,734 | 1,413,412 | (195,821) |
| Current Ratio | 1.73 | 3.59 | 0.69 |
| Convertible Debenture | | 783,107 | 1,128,585 |
| LT Debts/ Assets | - | 2.3% | 3.3% |
| Burn Rate/Month (incl exploration costs) | (158,033) | (919,863) | (293,071) |
| Cash from financing activities | 7,864,533 | 7,591,854 | 1,117,333 |

The company continues to hold a \$2.15 million 10% 2-year convertible debenture on its balance sheet (maturing in July 2010). The debenture may be converted during the 2-year term at \$0.1335 per share.

Subsequent Financing: Since the end of January 2009, the company raised \$0.58 million (in two tranches) by issuing 11.69 million units at a unit price of \$0.05. Each unit consists of one common share and one share purchase warrant (exercise price - \$0.10; maturity period – 2 years).

Stock Options and Warrants: According to management, the company currently has 6.85 million stock options and we estimate it also has 23.92 million warrants outstanding. None of the outstanding options and warrants is currently in the money.

Conclusion: Current cash is expected to last for another two months. Based on discussions with management, the company intends to spend \$2 million on exploration expenditures this year. Therefore, we estimate the company will have to raise at least \$1.77 million to fund working capital and exploration expenditures in the next 12 months.

Valuation

We have continued to value the company using Discounted Cash Flow (DCF), real options and comparables valuation models based on the resource estimates on its New Britannia and Squall Lake projects. Our revised DCF valuation model (shown below) gave a fair value estimate on the company of \$0.39 per share versus \$0.76 per share in our previous report.

| DCF Valuation Summary | |
|------------------------------------|---------------------|
| Resource (in tonnes) | 4,272,500 |
| Wt. average Grade (gpt) | 5.30 |
| Contained Metal (in troy oz) | 728,500 |
| Recovery | 92% |
| Production Commencement | 2011 |
| Mill Processing (tpd) | 2,150 |
| Mine Life (in years) | 6 |
| LT Gold Price (in US\$/oz) | \$600 |
| Average Operating Costs (\$/tonne) | \$60.0 |
| Capital Costs | \$22,330,000 |
| Discount Rate | 11.49% |
| Net Present Value | \$67,656,249 |
| Working Capital net Debt | (2,150,000) |
| Debt | - |
| Net Value | \$65,506,249 |
| No. of shares (diluted) | 166,006,191 |
| Value per share | \$0.39 |

The valuation dropped due to the following changes in our model:

- Raised our capital cost estimate from \$15 million to \$22 million (based on the PA)
- 44% increase in the number of diluted shares, from 115 million to 166 million
- Increased operating costs from \$50/tonne to \$60/tonne

The following table shows the sensitivity of our DCF valuation to our long term gold price forecast (our forecast is US\$600/oz).

| Sensitivity | | | | | | |
|-----------------------|--------|--------|--------|--------|--------|---------|
| Gold Prices (US\$/oz) | \$500 | \$600 | \$700 | \$800 | \$900 | \$1,000 |
| Valuation | \$0.24 | \$0.39 | \$0.55 | \$0.70 | \$0.85 | \$1.00 |

Real options valuation - Give the changes discussed above, our revised real option model values the New Britannia property at \$0.39 per share.

| Real Options Valuation | | | |
|---|--------------|-----------------------------|---------------|
| Inputs relating to the underlying asset | | | |
| Estd. Value of Minerals if extracted today (\$) | | | \$85,620,822 |
| Annualized Standard Deviation of Mineral prices | | | 19.0% |
| Capital Investment (\$) | | | 22,330,000 |
| Estd. Mine Life (years) | | | 6 |
| Riskfree Rate | | | 3.27% |
| Output | | | |
| Stock Price | \$85,620,822 | T.Bond rate | 3.27% |
| Strike Price | \$22,330,000 | Variance | 0.04 |
| Expiration (in years) | 6 | Annualized div yield | 0% |
| d1 = | 3.542 | Value of Option (\$) | \$67,273,369 |
| N(d1) = | 1.000 | Working Capital - Debt (\$) | (\$2,150,000) |
| d2 = | 3.077 | No of outstanding shares | 166,006,191 |
| N(d2) = | 0.999 | Value per share | \$0.39 |

Comparables valuation - Based on a valuation metric of \$30/oz (which we believe is the average valuation of junior Au projects at this time), we have revised our comparables valuation on the company from \$0.45 per share (based on \$67/oz) in our previous report, to \$0.12 per share.

Valuation Summary - Adding the market value of the 3 million shares of Takara Resources and the book value of TKK's properties (\$0.64 million) that GG recently acquired, to the average valuation from the above mentioned three models, we arrived at a fair value of \$0.30 per share (versus our previous estimate of \$0.57 per share)

| Valuation Summary | |
|-----------------------------------|----------------|
| DCF Valuation | \$0.395 |
| Real Options | \$0.392 |
| Comparables Valuation | \$0.119 |
| Average | \$0.302 |
| Market Value of Shares in Takara | \$0.000 |
| Book Value of Acquired Properties | \$0.004 |
| Fair Value (\$/Share) | \$0.302 |

Conclusions & Rating

Based on our revised valuation models and review of the company's progress since our previous report, we reiterate our BUY on GG but lower our fair value estimate from \$0.57 per share to \$0.30 per share. We continue to rate the company a Risk of 5 (Highly Speculative).

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

- The value of the company depends heavily on gold prices.
- The success of drilling, expansion and determination of favorable resource estimates are still important long-term success factors for the company.
- 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.

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