

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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May 16, 2008

## Garson Gold Corp. (TSX-V: GG) – Scoping Study Underway at New Britannia

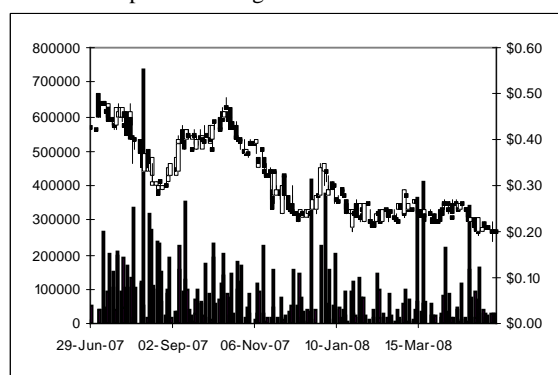
Sector/Industry: Mining/Gold

[www.garsongold.ca](http://www.garsongold.ca)

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

Current Price	C\$0.20
Fair Value	C\$0.47 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.18 - C\$0.50
Shares O/S	103,371,328
Market Cap	C\$20.67 mm
Current Yield	N/A
P/E	N/A
P/B	0.85
YoY Return	N/A
YoY TSXV	-20.6%

\*see back of report for rating and risk definitions



### Investment Highlights

- Garson Gold's flagship property is the New Britannia Gold Mine, a historic producer with a NI 43-101 compliant measured and indicated resource estimate of 364,000 oz, and inferred resource of 176,000 oz of gold.
- Garson Gold completed 20,000 meters of drilling on the property in 2007, and an updated resource estimate incorporating this drilling is expected in June 2008. The company expects to complete 25,000 meters of drilling in 2008.
- The project was in production as recently as 2005, complete with a mill, underground workings, and associated infrastructure.
- A scoping study is underway to evaluate the cost and economics of reopening the mine as soon as possible. The mill continues to stand by on a care and maintenance basis. It could be reopened with minimal cost and time.
- Ongoing data compilation and systematic exploration has defined many excellent exploration targets that are underexplored.
- GG's shares have dropped 39% since our previous report in November 2007. GG is currently trading at \$29/oz (based on their measured, indicated and inferred resources), while the average multiple of its comparables is \$62/oz. Our revised valuation is \$0.47 per share (versus our previous estimate of \$0.61 per share); the valuation dropped primarily due to share dilution.

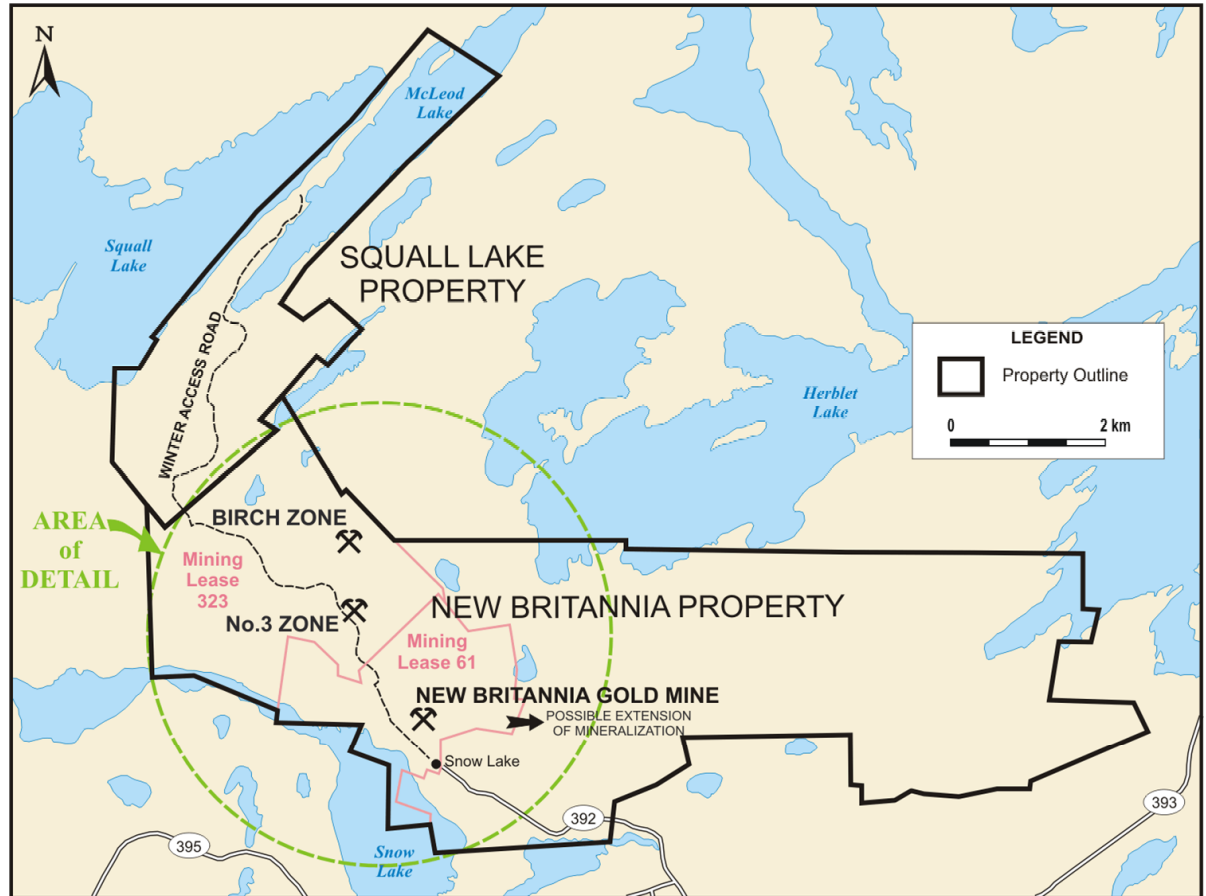
### Key Financial Data (FYE July 31)

(C \$)	2007	2008 (6 mo)
Cash & Marketable Securities	5,749,480	4,747,846
Working Capital	2,590,734	2,598,483
Property, Plant and Equipment	2,811,317	2,836,690
Mineral Assets	5,328,401	9,229,262
Total Assets	30,643,374	33,618,743
Net Income (Loss)	(2,306,388)	(2,192,755)
EPS	(0.07)	(0.03)

*Garson Gold holds 100% interest in the New Britannia Mine and related infrastructure. This property operated as recently as 2005, and the entire mining infrastructure is still in place. The company is conducting an exploration program to outline additional resources and put the New Britannia Mine into production as quickly as possible. Drilling results at the No. 3 and Birch Zone have expanded the known size of the deposit.*

## Company Overview

Garson Gold Corp.'s primary asset is a 100% interest in the New Britannia Gold Mine, located in northern Manitoba. Garson Gold Corp was formed from the amalgamation of Garson Resources and Piper Capital. The New Britannia Mine has produced over 1 million ounces of gold in its 20 year operating history. The advantages of this project are many: existing infrastructure, good location, historic production, exploration potential, and government/community support. The company is focused on resource delineation at the New Britannia Mine and surrounding properties. The company believes, and we agree, that resource expansion potential exists.



Source: Garson Gold Corp

## New Britannia

**Property Overview:** The 3,900 hectare New Britannia Mine property had two short periods of operations in its history. The last ended in 2004, and the mill and infrastructure was put on care & maintenance. Kinross made the decision to close the mine based on lack of ore reserves and economic factors, but Garson Gold believes they have identified a number of exploration projects that could provide additional ore feed in this strong metals market. The company aims to put the mine back into production as quickly as possible.

**Ownership:** Piper Capital and Garson Resources together purchased 100% of the New Britannia Mine and Mill from Kinross Gold (TSX:K, NYSE:KGC) and High River Gold Mines (TSX:HRG) in December 2006. Kinross has a back-in right if greater than 3 million

ounces of gold is delineated on the property. Garson Gold was required to undertake the environmental liabilities of Kinross and High River Gold with regards to the New Britannia Mine. In addition, the company finalized the 100% acquisition of the “Hudbay Option” property adjacent to the New Britannia Mine. Garson made a final payment of \$0.40 million to secure 100% ownership, subject to a 1.5% NSR royalty.

**Economic Studies:** The company commenced a scoping study with Micon Engineering, Wabi Development Corporation, and Golder Associated Ltd. in December 2007. This study is looking at all aspects of reopening and rehabilitating the New Britannia Mine and Mill. It will also provide an updated resource estimate based on the company’s 20,000 meter drilling program in 2007.

The scoping study will estimate capital costs to rehabilitate the mine and mill as well as estimate operating costs. Potential development options and operating plans will also be established. One potential option is to develop a 1.5 kilometer exploration drift to connect the Main Zone to the No. 3 Zone. This would be useful to fully evaluate the mineralization of the No. 3 and Boundary Zone, which is located between the Main and No. 3 Zone. The company has recently drilled the Boundary Zone with excellent results.

Due to the excellent infrastructure and recent production history, the company plans to commence with reopening the New Britannia Mine as soon as possible following the results of the scoping study, if they are positive.

### **Exploration Program**

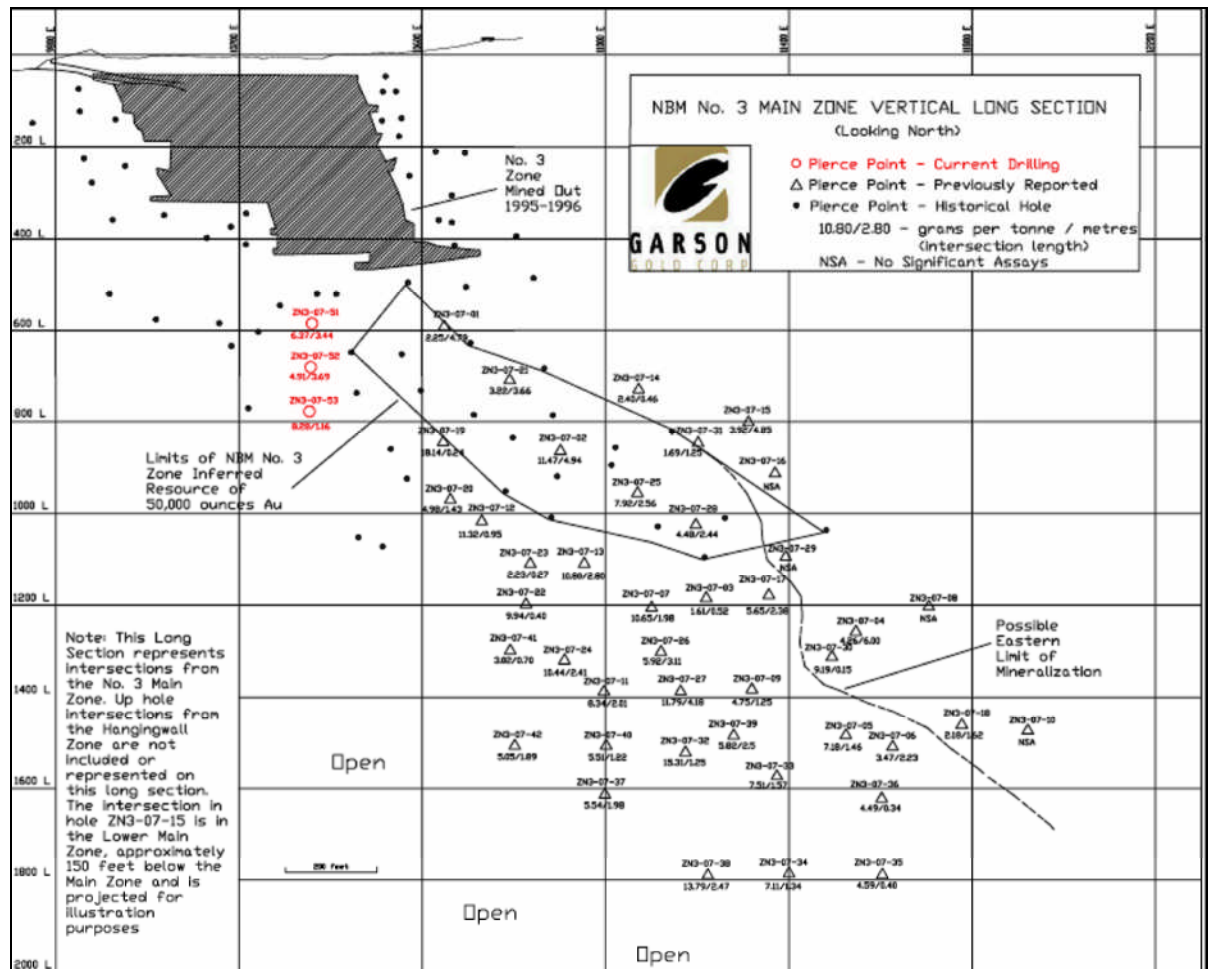
**2007 Exploration Program:** The company reported the following drilling results from the Main Zone in February 2008. The results are very good, but the Main Zone is not a priority at this time. The No. 3 Zone is much more underexplored.

<b>Drill Hole</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Width (m)</b>	<b>Grade (g/t gold)</b>
HB0736	321.0	324.2	3.11	16.2
includes	321.6	323.5	1.92	25.3
HB0737	300.4	303.9	3.44	4.5
includes	300.4	302.4	1.98	6.8

The company also announced the discovery of a new zone within the Boundary Zone, which is located along strike between the No. 3 Zone and the Main Zone. The Boundary Rhyolite has yielded high grade results, and a new upper wall zone above the Boundary Rhyolite has been discovered. Results include 15.66 g/t gold over 2.90 m in the Upper Boundary Zone and 3.47 g/t gold over 5.91 m in the Boundary Rhyolite Zone.

Further drilling results from the No. 3 Zone were released in November 2007, and February and April 2008. These results also include hanging wall mineralization intersected above the Main Zone. We believe these results are very positive. These results continue to expand the No. 3 Zone and should contribute significantly to the updated NI 43-101 compliant resource expected with the scoping study. A summary table of the drilling results since our last report

is available in the appendix, and a long section of the No. 3 Zone is shown below.

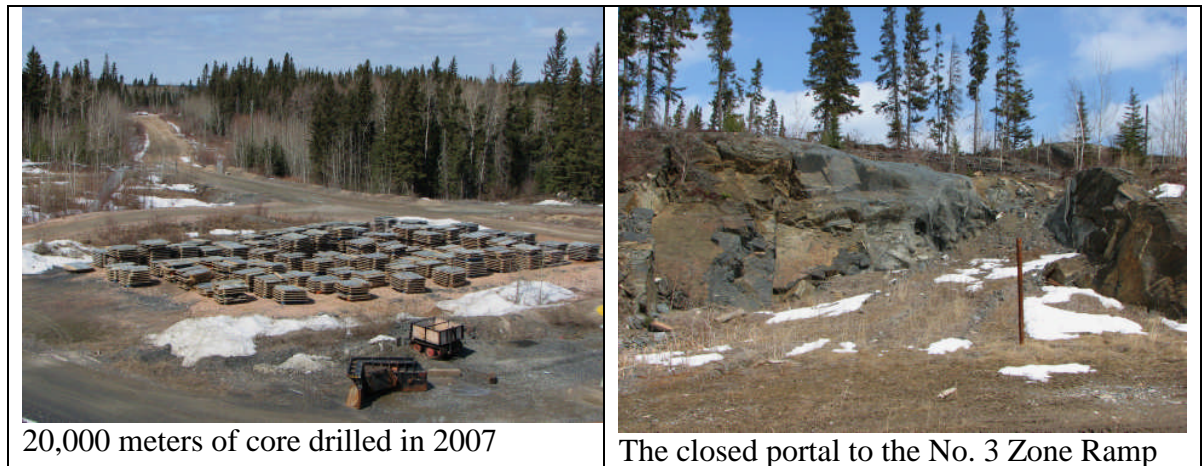


Source: Garson Gold Corp.

**Potential:** Drilling results from the No. 3 Zone have indicated gold mineralization continues at depth. The company has expanded the No. 3 Zone significantly and expansion potential still remains at depth and to the north, west, and south. We are encouraged by the consistent grades and widths of drilling results thus far. Preliminary results from other targets on the property indicate that significant exploration potential still exists.

**Current Developments:** The focus of Garson Gold's 2007 exploration drilling program was the No. 3 Zone. In addition to the drilling program, the company completed a comprehensive property wide compilation of data aimed at identifying new exploration targets. In conjunction with this program, an airborne magnetic survey was completed and over 900 soil samples were analyzed for anomalous geochemistry. The soil survey identified a number of anomalous gold zones. All of this data has been prioritized to identify the best drill targets outside of the known zones, and this will be a focus of the 2008 drilling program.

The company announced the commencement of the \$4 million, 25,000 meter drilling program in January 2008. Drilling will continue to focus on expanding the No. 3 and Kim Zones, while two other drill rigs will focus on testing the numerous mineralized zones and showings on the property delineated by Garson through magnetic and geochemical surveys as well as the compilation of historic data. **The updated resource estimate is expected in June 2008 and the scoping study is expected in August 2008.**



Source for photos: Garson Gold Corp.

**Resource Estimates:** This property has a NI 43-101 compliant measured and indicated resource estimate of 364,000 oz, and inferred resource of 176,000 oz of gold. This resource was calculated by Micon in the NI 43-101 technical report, and is based on drilling done by Kinross in 2004. We believe the company has significantly expanded the resource with the 2007 drilling, and an updated resource is expected in June 2008.

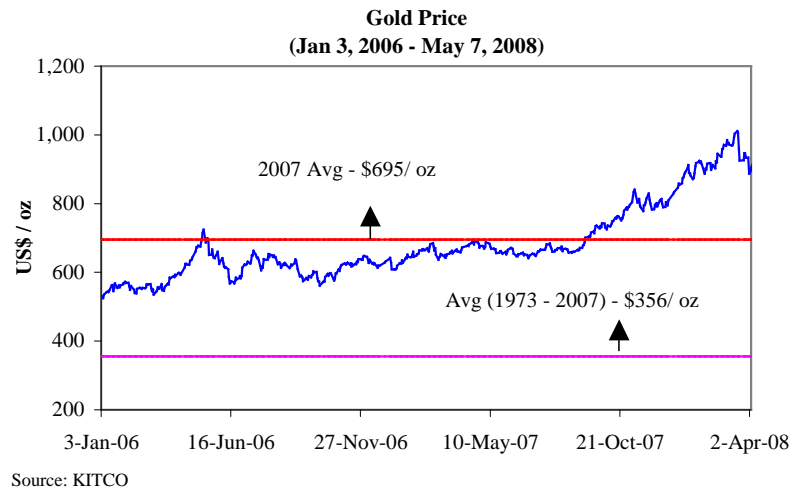
Category	Tonnage	Grade (g/t gold)	Contained Ounces
<b>Measured &amp; Indicated</b>	2,211,000	5.11	364,000
<b>Main Mine</b>			
<b>Inferred</b>	1,094,000	5.01	176,000
<b>Main Mine, No. 3 Zone, and Birch Zone</b>			

### **Other Properties**

The company's joint venture partner at the McMillan Gold property, Young-Shannon Gold Mines Ltd. (TSX-V: GYS), is currently drilling there. They plan to drill 5 holes totaling 1,700 meters to test extensions of known mineralization and new targets. Young-Shannon can earn 51% interest in the McMillan property through the payment of cash and shares as well as fulfilling exploration requirements.

### **Outlook for Gold**

The chart below shows gold prices since January 2006. Gold is currently trading at about US\$900/oz.

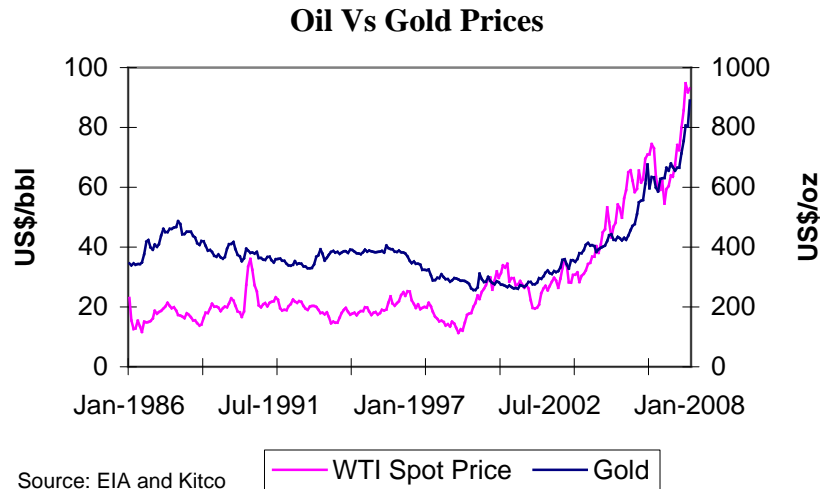


Although gold prices have risen considerably in the second half of 2007 and early 2008, and have achieved record highs, we have maintained our positive outlook on gold due to the following macro economic conditions:

**a) The US\$ is expected to continue to depreciate with respect to other global currencies,** based on an expected slow down in the U.S. economy, relatively lower real interest rates in the U.S., and persisting inflationary expectations.

The International Monetary Fund (IMF) expects U.S. GDP to grow at 1.5% in 2008, versus 2.2% in 2007, and the Federal Reserve predicts unemployment rates will increase YOY from 4.6%, to 5.2% in 2008. The U.S. Fed cut interest rates from 5.25% to 2.25% in their last seven meetings. These rate cuts imply that there is a possibility that real interest rates in the U.S. could go negative, which is very unfavorable for the US\$. The rate cuts in turn, we believe, will add to inflationary pressures and simultaneously depreciate the value of the U.S.\$. The Fed recently raised their forecasts for inflation in 2008 up from 1.8 – 2.1% to 2.1 – 2.4%.

**b) High Oil Prices:** 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. The chart below shows oil and gold prices since 1986. We noticed that the positive correlation between monthly log changes in oil and gold prices increased during January 2006 – January 2008, when oil prices were high, from the historic correlation (1986 – 2006) of 0.18 to 0.53, which is a significant jump.



Oil is currently trading close to US\$127/bbl, and prices are expected to stay above \$80/bbl through at least 2010. We believe this will have a positive effect on the demand for gold.

**c) Investment demand continue to stay strong:** As of April 17, 2008, total ETG (exchange traded gold) assets held by the NEW York Stock Exchange (NYSE) and the London Stock Exchange (LSE) were up 28% YOY. We believe continued strength in investment demand reflects the fact that gold continues to hold its status as a ‘capital preservation asset’.

Therefore, based on a depreciating U.S dollar, high oil prices, and strong investment demand, we continue to be bullish on gold prices. The average consensus forecasts for gold prices are US\$960/oz in 2008, and US\$915/oz in 2009.

### **Financials**

At the end of January 2008, the company had cash and marketable securities, and working capital of \$4.75 million and \$2.60 million, respectively. GG had a net loss of \$2.19 million for the 6-month period ended January 2008, compared with a net loss of \$1.32 million in the same period in the previous year.

During the 6-month period ended January 2008, the company spent about \$3.66 million on its mineral properties. We estimate the company had a burn rate of \$0.99 million per month for the 6-month period ended January 2008. The table below shows the company’s cash position and liquidity ratios.

(C \$)	2007	2008 (6 mo)
Working Capital	2,590,734	2,598,483
Current Ratio	1.73	1.99
LT Debts/ Assets	-	-
Burn Rate/Month (incl exploration costs)	(158,033)	(990,389)
Cash from financing activities	7,864,533	5,478,288

**Recent Financings:** During the 6-month period ended January 2008, the company raised about \$5.48 million through private placements and exercises of warrants.

**Stock Options and Warrants:** At the end of January 2008, the company had 5.14 million stock options outstanding with exercise prices ranging from \$0.20 to \$0.35, and maturity periods between May 2009 and January 2013. The company also had about 23.70 million warrants outstanding with exercise prices ranging from \$0.25 to \$0.37, and maturity periods between September 2008 and December 2009 (none of the warrants is currently in the money).

**Conclusion:** As at January 31, 2008, the company had \$4.75 million in cash & marketable securities. Based on our discussion with management, the company has a budget of about \$4 million for capital expenditures until the end of 2008. We estimate the company will need to raise about \$3.5 million to meet its capital budget and for working capital.

### Valuation

We have continued to value the company using Discounted Cash Flow (DCF), real options and comparables valuation models based on the company's resource estimates from its New Britannia and Squall Lake projects. Our revised DCF valuation model (shown below) gave a fair value estimate on the company of \$0.66 per share versus \$0.58 per share in our previous report.

DCF Valuation Summary	
Resource (in tonnes)	3,523,500
Wt. average Grade (gpt)	5.09
Contained Metal (in troy oz)	576,484
Recovery	92.2%
Production Commencement	2010
Mill Processing (tpd)	2,150
Mine Life (in years)	5
Gold Price ( in US\$)	\$600
Average Operating Costs	\$50/tonne
Capital Costs	\$15,000,000
Discount Rate	11.49%
<b>Net Present Value</b>	<b>\$67,837,106</b>
Working Capital	148,483
Debt	-
<b>Net Value</b>	<b>\$67,985,589</b>
No. of shares (diluted)	103,371,328
<b>Value per share</b>	<b>\$0.66</b>

Our DCF valuation of the company increased primarily because we raised our gold price forecast in 2010 from US\$600/oz to US\$774/oz (while maintaining our 2011+ gold price assumptions at US\$600/oz), and lowered our operating cost estimate from \$55/tonne to \$50/tonne. The increase in valuation was offset by significant share dilution since our previous report. The number of shares outstanding increased from 83.79 million to 103.37 million.

The table below shows the sensitivity of our DCF valuation to changes in our long-term gold price assumptions and discount rate.

<b>Sensitivity</b>					
<b>Gold Prices (US\$/oz)</b>	<b>\$500</b>	<b>\$600</b>	<b>\$700</b>	<b>\$800</b>	<b>\$900</b>
<b>Discount Rate</b>					
<b>8.00%</b>	\$0.55	\$0.77	\$0.99	\$1.20	\$1.42
<b>10.00%</b>	\$0.50	\$0.70	\$0.90	\$1.10	\$1.30
<b>11.49%</b>	\$0.47	<b>\$0.66</b>	\$0.84	\$1.03	\$1.22
<b>15.00%</b>	\$0.41	\$0.57	\$0.73	\$0.89	\$1.05

Although our real options valuation mode uses current gold prices, we now prefer to use our long-term gold price assumptions in our model, for conservatism. This revision, as well as share dilution, led to a significant decline in our real option valuation (shown below) from \$0.77 per share to \$0.35 per share.

<b>Real Options Valuation</b>					
	<b>Resources</b>	<b>Grade</b>	<b>Contained Metal</b>	<b>Gold Price(US\$/oz)</b>	<b>Value (C\$)</b>
	<b>(in tonnes)</b>	<b>(g/t)</b>	<b>(in troy oz)</b>		
Gold	3,523,500	5.09	576,484	600	366,747,351
Operating Costs (\$/tonne)	\$50.00			Total Value (C\$)	\$366,747,351
Recovery (Au)	92.2%			Operating Costs (C\$)	\$185,543,114
C\$/US\$	1.15			<b>Net Value (C\$)</b>	<b>\$181,204,237</b>
<b>Inputs relating to the underlying asset</b>					
Estd. Mineral Resources (in tons)					3,523,500
Estd. Value of Minerals if extracted today					\$132,301,659
Annualized Standard Deviation of Mineral prices					19%
Capital Investment					\$15,000,000
Estd. Mine Life (years)					5
Riskfree Rate					3.60%
<b>Output</b>					
Stock Price	\$132,301,659			T.Bond rate	3.60%
Strike Price	\$15,000,000			Variance	0.04
Expiration (in years)	5			Annualized div yield	21.36%
d1 =	3.487			Value of Option	\$35,996,917
N(d1) =	1.000			Working Capital	148,483
d2 =	3.077			LT Debt	-
N(d2) =	0.999			No of outstanding shares (diluted)	103,371,328
				<b>Value per share</b>	<b>\$0.35</b>

The following table presents our revised comparables valuation of the company.

Comparables Valuation Model						
	Company	SYM	Price	Enterprise Value	Resource (Au in mm oz)	EV / Resources
1	San Gold Corporation	SGR	\$1.29	\$277,603,285	1.91	145.7
2	Anaconda Mining Inc.	ANX	\$0.96	\$53,408,771	0.36	147.1
3	Lake Shore Gold Corp	LSG	\$1.56	\$144,507,211	1.89	76.6
4	<b>Garson Gold</b>	<b>GG</b>	<b>\$0.20</b>	<b>\$17,926,420</b>	0.61	<b>29.2</b>
5	Golden Band Resources Inc.	GBN	\$0.32	\$27,074,857	1.01	26.9
6	GLR Resources	GRS	\$0.39	\$21,038,318	1.09	19.3
Average EV / Resources <sup>x</sup>						61.9
<b>Fair Value of GG's stock</b>						<b>\$0.39</b>

Note: Share prices are as of May 15, 2008

Since SGR is a producing company and ANX is commencing production, we have discounted their ratios by 25%

Based on an average EV/Resource ratio of \$62/oz (previously \$67/oz), our comparables valuation on the company is \$0.39 per share (down from \$0.48 per share).

**Our revised valuation on the company is \$0.47 per share, compared to \$0.61 per share in our previous report.**

Valuation Summary		
	Revised	Previous
DCF Valuation	\$0.66	\$0.58
Real Options Valuation	\$0.35	\$0.77
Comparables Valuation	\$0.39	\$0.48
<b>Average</b>	<b>\$0.47</b>	<b>\$0.61</b>

### Conclusions & Rating

**Based on our valuation models and review of the company's progress since our previous report, we reiterate our BUY rating and lower our fair value estimate to \$0.47 (from \$0.61 per share).** Our revised fair value represents upside potential of 135% from current price levels.

### Risks

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

- The success of drilling, expansion and determination of favorable resource estimates are important long-term success factors for the company.
- The resource, as it stands currently, is likely not enough to reopen the mine. However, significant exploration potential exists on the property.
- The value of the company depends heavily on gold prices.
- The company has assumed liability for the closure of the mine, should they be unable to prove up reserves.

We consider Garson Gold a high-risk investment opportunity as the company is still in its exploration stage. At this stage, we rate the shares a **RISK of 5 (Highly Speculative)**.

## APPENDIX

## Drilling Results

Drill Hole	From (m)	To (m)	Width (m)	Grade (g/t gold)
ZN0307-15 <sup>^</sup>	400.1	405.1	4.85	3.92
Includes <sup>^</sup>	402.2	404.4	2.1	7
ZN0307-20	374.7	376.2	1.43	4.98
ZN0307-23*	298.3	299.6	1.31	3.78
Includes*	298.4	299.0	0.55	7.09
ZN0307-23	415.6	415.9	0.27	2.23
ZN0307-32	485.6	486.9	1.25	15.31
ZN0307-33	577.5	579.0	1.57	7.51
includes	577.5	578.0	0.46	21.37
ZN030719	327.4	327.7	0.24	18.14
ZN030734	556.7	558.8	2.01	7.11
ZN030734	583.5	584.6	1.04	11.56
ZN030735	569.6	570.0	0.4	4.59
ZN030736*	54.7	55.3	0.61	4.22
ZN030736*	58.2	58.6	0.4	5.69
ZN030736*	74.1	74.6	0.49	6.51
ZN030736	596.2	596.5	0.34	4.49
ZN030737	521.4	523.5	1.98	5.54
includes	521.4	522.6	1.13	9.21
ZN030738*	388.5	391.1	2.53	2.5
Includes*	389.6	390.4	0.76	4.29
ZN030738	549.5	552.1	2.47	13.79
ZN030739	472.7	475.2	2.5	5.82
includes	472.7	473.6	0.88	13.82
ZN030739	506.3	506.9	0.58	8.31
ZN030740*	253.6	254	0.37	6.31
ZN030740*	342.5	345	2.41	7.58
ZN030740*	408.6	411.1	2.5	3.66
Includes*	409.6	411.1	1.46	4.79
ZN030740*	415.8	417.3	1.52	3.83
ZN030740	518.0	519.3	1.22	5.51
ZN030740	555.7	556.6	0.85	12.58
ZN030741	527.4	528.2	0.7	3.02
ZN030742*	342.4	344	1.58	5.62
Includes*	342.4	343.0	0.64	4.59
ZN030742	545.4	547.4	1.89	5.05
includes	545.4	545.7	0.21	39.32
ZN030851	246.3	246.5	0.27	20.98
ZN030851	256.0	259.5	3.44	6.37
includes	256.0	257.3	1.34	13.8
ZN030852	250.8	254.6	3.69	4.91
includes	253.6	254.6	1.04	15.29
ZN030852	308.1	308.8	0.7	5.25
ZN030853	258.6	259.8	1.16	8.28

\*hanging wall mineralization

<sup>^</sup>lower Main Zone mineralization

**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 shares are considered highly speculative.

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