

Global Energy Services Ltd. (TSXV: GLK) – Q2 Sales Decline Significantly; Communication Segment Takes \$2.3mm Writedown

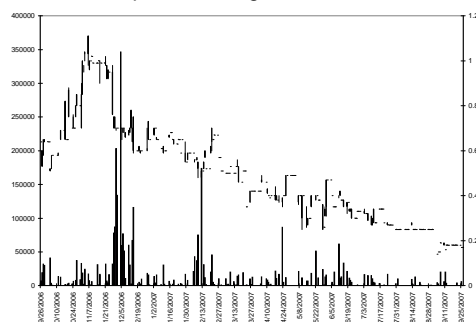
Sector/Industry: Oilfield Services

www.global-energy.ca

Market Data (as of September 26, 2007)

Current Price	\$0.165
Fair Value	\$0.20 ↓
Rating*	HOLD ↓
Risk*	4 – Speculative
52 Week Range	\$0.14 - \$1.11
Shares O/S	18.8MM
Market Cap	\$3.1MM
Current Yield	N/A
P/E (forward)	N/A
P/B	0.66x
YoY Return	-73.4%
YoY TSX-V	15.4%

*See back of report for rating and risk definitions



Q2 2007 Highlights

- Q2 2007 revenues declined 32.6% from \$2.1 million in Q2 2006, to \$1.4 million. Six-month revenues fell 19.6% YoY.
- Sales growth of the submersible pump (HSP) continued to be below expectations though GLK attributes this to temporary weather factors and expects higher growth in Q3. The decline in the communications segment was higher than expected and the company wrote off all the goodwill related to this segment in Q2 (\$2.3 million).
- Although we continue to expect natural gas prices to increase, we believe that the weak drilling activity in Alberta will continue to adversely impact oilfield service companies well into 2008 where as we had previously thought that activity would improve in early 2008.
- Gross margins were significantly below expectations as were operating expenses.
- We continue to believe the company needs to obtain additional bank financing or risk cash flow problems.
- We are lowering our valuation on reduced growth rate estimates, and increased cost estimates from \$0.70 to \$0.20. We lower our rating to HOLD from BUY.

Key Financial Data and Statistics (C\$MM's)

	2003	2004	2005	2006A	2007E	2008E
Revenues	\$ 6.80	\$ 7.97	\$ 10.49	\$ 11.43	\$ 9.84	\$ 12.61
Net Income	\$ 0.37	\$ 0.68	\$ 0.11	\$ 0.00	\$ (4.33)	\$ (0.42)
Gross Margins	60.88%	63.49%	61.49%	60.62%	43.00%	45.00%
Debt to Capital	22.15%	14.77%	8.28%	13.76%	24.31%	41.97%
Return on Capital	18.8%	19.6%	14.1%	2.0%	-38.8%	-9.3%

Global Energy Services Ltd. provides communication systems, wireless gas detection and artificial lift solutions to the oil and gas industry. Based in Calgary, Alberta – with offices throughout Western Canada – Global Energy has been creating cost-effective products and providing superior customer service since 1994.

**Six Month
Revenues
Decline 19.6%**

Global Energy Services (GLK) reported Q2 2007 revenues of \$1.4 million, compared to \$2.1 million in the same period last year, a decrease of 32.6%. For the first half of 2007, revenues have declined 19.6% as compared to the first half of 2006. We now take a closer look at revenue performance by segment.

Production Services – This segment includes the sale and rental of the company’s hydraulic submersible pump. As expected, this segment continued to provide revenue growth for the company in the second quarter; though growth was lower than Q1, and lower than expected. Management attributes the lower than expected revenue growth to weather related factors that they believe will shift revenues to Q3. For the first half of 2007, production services grew by 62.5% compared to the same period last year, below our expectations of 200%. Sales growth of 18% in Q2 2007, over Q2 2006, was not as high as sales growth in Q1 2007, relative to Q1 2006.

Continued growth in this segment indicates two things to us: 1. The HSP continues to achieve market penetration and acceptance, and 2. Producers are seeing the benefits of adopting the pump to optimize existing wells as opposed to drilling new wells. However, the table below shows that service rig utilization, an indicator of workover activity, is declining as well albeit at a less severe rate than drilling rig activity .

Average Monthly Service Rig Count

		Working	Down	Total	%	07/06 Change
2007	August	565	501	1066	53.0%	-20.0%
	July	608	454	1062	57.0%	-15.6%
	June	501	559	1060	47.2%	-23.2%
	May	387.2	665.3	1052.5	36.7%	-13.2%
	April	311.6	735.2	1046.8	29.7%	-7.8%
	March	692	349	1041	66.4%	-8.1%
	February	816.7	206.5	1023.2	79.8%	-3.0%
	January	791	216	1007	78.5%	-5.3%
2006	August	706	297	1003	70.4%	
	July	720	278	998	72.1%	
	June	652	342	994	65.6%	
	May	446	502	948	47.0%	
	April	338	636	974	34.7%	
	March	753	220	973	77.3%	
	February	842	118	960	87.7%	
	January	835	199	954	87.5%	

Source: CAODC, FRC

What the above table indicates to us is that all segments of the oilfield services industry are experiencing a slowdown. Therefore, we are reducing our sales growth assumption for the HSP from management’s guidance of 200% to 150% for 2007. We are now expecting 2007 production segment revenues of \$2.6 million, down from our previous estimate of \$3.1 million. Management continues to believe that there is still a lot of room for growth in this segment as GLK’s market penetration is minimal to date, and they estimate market saturation in Canada at about 40,000 wells.

Communication Segment - Revenues for this segment declined 29% in the first half of 2007 compared to the first half of 2006, and 38% in Q2 2007 versus Q2 2006. The decline is the result of continued weakness in drilling activity in the WCSB as the table below shows.

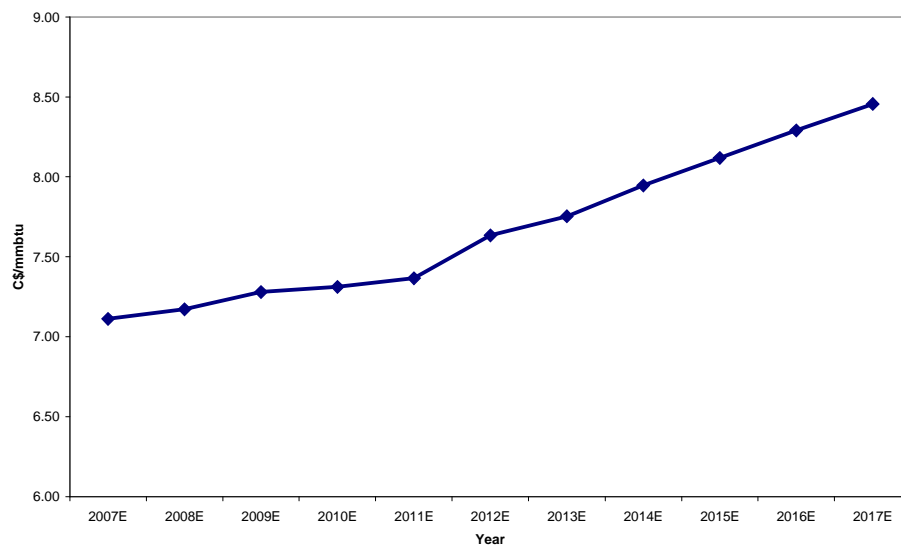
		Q1		Q2		Q3		YTD	
	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization	
2007 Available	663		723		708		698		
2007 Drilling	391	58.9%	97	13.3%	238	33.6%	242	34.6%	
2006 Available	580		643		624		616		
2006 Drilling	522	89.9%	233	36.2%	384	61.5%	379	61.6%	

Source: CAODC, FRC

Drilling rig utilization in Q2 2007 was only 13.3% compared to 36.2% in Q2 2006. This decline in utilization has continued into Q3. As the table above shows, Q3 utilization is only at 33.6% versus 61.5% during the same time last year. Year to date, rig utilization is only at 34.6% versus 61.6% last year.

There are a number of reasons for this including: a decrease in natural gas prices relative to 2005, an increase in LNG imports, and a strong Canadian dollar. We had originally expected industry activity to increase in the later half of 2007. However, after a review of current and expected industry activity, and an analysis of the announced 2008 budgets for many of the producers, we now believe that industry conditions will not improve until the later half of 2008 or even 2009. We continue to believe that natural gas fundamentals are strong in the long run, and will support higher prices as the table below shows.

AECO Spot C\$/mmbtu



Source: GLJA

Although natural gas prices are expected to keep increasing, they are not expected to reach 2005 levels till at least 2013-2014. This will negatively impact GLK's communication segment. The company has announced that the result of the industry slowdown has been cancellations of some contracts in this segment including a sizeable one from Husky Energy (TSX: HSE).

Further signaling the poor outlook for this segment, management has chosen to writedown the entire goodwill portion of this segment. This decision was taken in consideration of current and future drilling activity, the company's stock price, and the cancellation of a number of long-term contracts.

As a result of the above factors, we are reducing our 2007 growth rate estimate for this segment from a decline of 10% to a decline of 30%. Our revised revenue estimate for the communication segment for 2007 is \$7.3 million versus our previous estimate of \$9.8 million. One bright spot is the fact that management has indicated that it has diversified into areas outside the WCSB in order to escape the slowdown in that area. For example, the company is now operating in the Foothills and in the U.S. However, recent drilling activity data in the U.S. indicates that although drilling activity is still high, it maybe starting to also experience a slowdown.

Overall we are expecting 2007 revenues of \$9.8 million (previously \$12.8 million), and 2008 revenues of \$12.6 million (previously \$16.2 million).

Significantly Weaker than expected Gross Margins

Gross margins for the quarter were 39.2% versus 56.9% for the same period last year. For the first half of 2007, gross margins were 43.2% versus 61.7% for the same period last year. Gross margin are significantly lower than our estimate of 55%. We noticed margin declines in both segments. Margin declines are mainly being caused by:

1. Bundling of third party services such as coil tubing and wellhead equipment that carry lower margins.
2. Higher utilization of third party rentals versus company owned rentals.

Management informed us in Q1 that they had taken steps to improve utilization of company owned rentals, and expect margins to improve in later quarters. However, gross margins continued to deteriorate in Q2. We asked management why they are bundling third party services if they serve to lower gross margins and were informed that these service were being demanded by their client base. As a result, we are lowering our 2007 gross margin assumption to 43% from 55%, and lowering our gross margin assumptions for the next five years.

Operating costs also increased significantly with respect to sales from 36.7% of sales for the first half of 2006, to 50.3% in the first half of 2007. As a result of this, we are increasing our operating cost assumption for 2007 to 47.5% of sales from our previous assumption of 39%. We have also raised our operating cost assumptions in later years. The company has announced various cost cutting measures in Q2 which they believe will have a positive impact on later quarters. We also believe that job losses in the oilfield service industry will

relieve labour cost pressures. Industry data indicate that between 10,000-20,000 oilfield service jobs have been cut since January.

Net Income

For Q2 2007, GLK reported a net loss of \$3,109,660 or (\$0.165) EPS versus a net loss of \$335,210 or (\$0.018) EPS in the same period last year. Six month net loss for 2007 was \$3,715,287 or (\$0.197) EPS versus net income of \$295,974 or EPS of \$0.016 in the first half of 2006 (keep in mind part of the loss was due to a one-time writedown of \$2.3 mm).

As a result of the above revisions to our models, we have revised our 2007 net income estimate to a loss of \$4.3 million from a loss of \$201,219, and EPS of (\$0.23) from (\$0.011). Our 2008 estimates have also decreased to a loss of \$418,000 from net income of \$1.16 million and (\$0.022) EPS from \$0.061.

Liquidity and capital structure

We continue to believe that one large risk for GLK is its liquidity position. An oilfield services firm needs to have a strong balance sheet in order to weather the seasonal and cyclical swings in the oil and gas industry. Although the company's debt to capital is relatively low, it is currently relying on its credit line to fund its operations. Even though bank debt has decreased since year-end, we believe the company will have to seek an increase in its credit line as we anticipate the company will need to drawdown more than the \$1.2 million on its credit line in 2008. According to management, the company is onside on all debt covenants and is negotiating for additional bank lines.

The company has cut its capex significantly to conserve cash. Capex for the first six months of 2007 was only \$113,052 versus \$1.2 million in the same period last year, and below our estimate of \$2.5 million for 2007 capex. Obviously, if the company under spends on capex, its equipment will deteriorate. We asked management about this and were informed that GLK's rental fleet is in excellent condition and that the company can do without capex for about a year. Therefore, we have lowered our 2007 capex estimate.

Valuation

The table below presents our revised DCF valuation on GLK.

Global Energy - Discount Cash Flow Model (C\$ MM)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal
Funds From Operations	(0.36)	0.45	0.62	0.66	0.65	0.86	2.84	3.36	4.03	4.18
Investment in Working Capital	1.74	(0.30)	(0.09)	(0.10)	(0.10)	(0.11)	(0.96)	(0.75)	(0.96)	(0.22)
Cash From Operations	1.38	0.15	0.53	0.56	0.55	0.75	1.87	2.61	3.07	3.96
Capex	(0.23)	(2.00)	(2.00)	(2.00)	(2.00)	(2.00)	(2.00)	(2.00)	(2.00)	(2.00)
Free Cash Flow	1.16	(1.85)	(1.47)	(1.44)	(1.45)	(1.25)	(0.13)	0.61	1.07	1.96
PV	1.12	(1.60)	(1.14)	(0.99)	(0.90)	(0.69)	(0.06)	0.27	0.41	8.32
Discount Rate	12%									
Terminal Growth	3%									
Sum PV (MM)	4.73									
Debt (MM)	1.16									
Equity Value (MM)	3.57									
Share O/S (MM)	18.82									
DCF Value/Share	\$ 0.19									

As a result of the revisions above, the DCF value has declined significantly from \$0.68 to \$0.19.

As we are now forecasting a loss for 2007, and 2008, we have not reviewed our valuation by multiples for GLK.

Rating

Based on a review of the valuation obtained using our DCF model, we are lowering our rating on GLK from BUY to HOLD, and lowering our fair value to \$0.20 from \$0.70.

We believe that continued industry weakness, tight cash flow and financing options, lower margins, and the write down of goodwill (which is a non-cash charge but sends a negative signal to the market) significantly increase the risks of investing in GLK at this point.

With the stock at current levels, we believe investors with a long term horizon can afford to wait and see if management is able to continue growing the production segment, cut costs, and explore strategic alternatives for the communications segment.

Risks

In FY2005, 4 customers each accounted for more than 10% of revenues, and together, totaled, 56% of revenues. If GLK lost any one of these major customers, it would have a significant impact on revenues and our projections.

The company has disclosed in its 2005 annual report that strong demand for its artificial lifts could pose manufacturing constraint problems. Also, a significant and sustained decline in natural gas prices would make certain CBM projects uneconomical and hence, reduce demand for the company's artificial lifts. The company's communications business is also sensitive to natural gas prices.

Also, we believe that company needs to obtain additional bank financing to continue operating.

We maintain our risk at 4 – Speculative.

APPENDIX

Income Statement

GLOBAL ENERGY SERVICES LTD

Income Statement - Annual - Standardised in Millions of CAD

Fiscal Period:	2005	2006A	2007E	2008E
Total Revenue	10.490	11.431	9.841	12.614
Cost of Revenue	4.050	4.501	5.609	6.938
Gross Profit	6.450	6.929	4.232	5.676
Selling/General/Admin. Expenses, Total	3.430	4.629	4.674	5.361
Research & Development	0.390	0.382	0.000	0.000
EBITDA	2.630	1.918	(0.443)	0.315
Depreciation/Amortization	1.390	1.725	1.652	0.867
EBIT	1.240	0.193	(2.095)	(0.552)
Interest Expense(Income) - Net Operating	0.050	0.035	0.093	0.09185169
Unusual Expense (Income)	0.840	(0.015)	2.963	
Other Operating Expenses, Total	0.100			
Net Income Before Taxes	0.240	0.174	(5.150)	(0.644)
Provision for Income Taxes	0.140	0.170	(0.824)	(0.225)
Net Income	0.110	0.003	(4.326)	(0.418)
Basic Weighted Average Shares	16.860	18.611	18.819	18.611
Basic EPS Including Extraordinary Items	0.010	0.000	(0.230)	(0.022)
Diluted Weighted Average Shares	16.860	18.819	18.819	18.819
Diluted EPS Excluding ExtraOrd Items	0.010	0.000	(0.230)	(0.022)

Balance Sheet**GLOBAL ENERGY SERVICES LTD****Balance Sheet (Differentiates) - Annual - Standardised in Millions of CAD**

Fiscal Period:	2005	2006A	2007E	2008E
Cash and Short Term Investments	0.000	0.000	0.671	0.000
Accounts Receivable - Trade, Net	3.900	3.198	2.460	3.154
Total Inventory	0.660	0.817	0.897	1.110
Prepaid Expenses & Other	0.160	0.889	0.098	0.126
Total Current Assets	4.720	4.903	4.127	4.390
Property/Plant/Equipment, Total - Net	2.380	2.798	1.372	2.505
Goodwill, Net	2.320	2.316	0.000	0.000
Intangibles, Net	0.340	0.237	0.237	0.237
LT Investments - Other	0.000	0.000	0.000	0.000
Long Term Investments	0.000	0.000	0.000	0.000
Deferred Charges	--	0	--	--
Other Long Term Assets, Total	0.590	0.609	1.177	0.952
Total Assets	10.350	10.864	6.913	8.084
Payable/Accrued	1.250	1.220	1.515	2.151
Notes Payable/Short Term Debt	0.530	1.312	1.312	2.490
Current Port. of LT Debt/Capital Leases	0.190	0.015	0	0
Income Taxes Payable	0.270			
Other Payables	--		0	0
Total Current Liabilities	2.240	2.547	2.827	4.641
Long Term Debt	0.010	0.000	0.000	0.000
Capital Lease Obligations	0.000	0	0	0
Other Long Term Liabilities	--	0	0	0
Other Liabilities, Total	--	0	0	0
Total Liabilities	2.260	2.547	2.827	4.641
Convertible Preferred Stock - Non Rdmb1	0.000		0	0
Common Stock	7.700	7.790	7.790	7.790
Additional Paid-In Capital	0.120	0.250	0.345	0.120
Retained Earnings (Accumulated Deficit)	0.280	0.278	(4.049)	(4.467)
Total Equity	8.090	8.317	4.086	3.443
Total Liabilities & Shareholders' Equity	10.350	10.864	6.913	8.084

Cash Flow Statement**GLOBAL ENERGY SERVICES LTD****Cash Flow (Indirect) - Annual - Standardised in Millions of CAD**

Fiscal Period:	2005	2006A	2007E	2008E
Net Income/Starting Line	0.110	0.003	(4.326)	(0.418)
Depreciation	1.260	1.541	1.652	0.867
Amortization of Intangibles	0.120	0.184	0.012	
Amortization	0.120			
Deferred Taxes	(0.400)	(0.017)	(0.095)	
Unusual Items	0.910	(0.015)		
Other Non-Cash Items	0.130	0.158	2.316	
Non-Cash Items	1.030		0.080	
Funds From Operations	3.280	1.855	(0.362)	0.449
Accounts Receivable	--		0.737	(0.693)
Inventories	--		(0.081)	(0.213)
Prepaid Expenses	--		0.790	(0.028)
Accounts Payable	--		0.295	0.636
Other Assets & Liabilities, Net	(2.200)			
Changes in Working Capital	(2.200)	(0.490)	1.742	(0.297)
Cash from Operating Activities	(0.070)	1.365	1.380	0.151
Purchase of Fixed Assets	(1.190)	(2.128)	(0.225)	(2.000)
Purchase/Acquisition of Intangibles	--	(0.084)	-	-
Capital Expenditures	(1.190)	(2.212)	(0.225)	(2.000)
Acquisition of Business	--			
Sale of Fixed Assets	0.050	0.161	0.056	
Purchase of Investments	--	0.022		
Sale of Intangible Assets	--			
Other Investing Cash Flow	0.010			
Other Investing Cash Flow Items, Total	0.070			
Cash from Investing Activities	(1.120)	(2.028)	(0.169)	(2.000)
Other Financing Cash Flow	--	(0.118)		
Financing Cash Flow Items	--			
Cash Dividends Paid - Preferred	--			
Total Cash Dividends Paid	--			
Sale/Issuance of Common	0.790	0.067		
Common Stock, Net	0.790			
Sale/Issuance of Preferred	--			
Repurchase/Retirement of Preferred	--			
Preferred Stock, Net	--			
Issuance (Retirement) of Stock, Net	0.790			
Short Term Debt Issued	--	0.780		1.178
Short Term Debt Reduction	--			
Short Term Debt, Net	--			
Long Term Debt Issued	--			
Long Term Debt Reduction	--	(0.066)	(0.010)	
Long Term Debt, Net	(0.470)			
Issuance (Retirement) of Debt, Net	(0.470)			
Cash from Financing Activities	0.320	0.663	(0.010)	1.178
Foreign Exchange Effects	--	-	-	-
Net Change in Cash	(0.870)	(0.000)	1.201	(0.671)
Net Cash - Beginning Balance	0.340	(0.530)	(0.530)	0.671
Net Cash - Ending Balance	(0.530)	(0.530)	0.671	0.000

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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