

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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## Hemis Corporation (OTC.BB: HMSO, F: XZA) – Key Projects Optioned

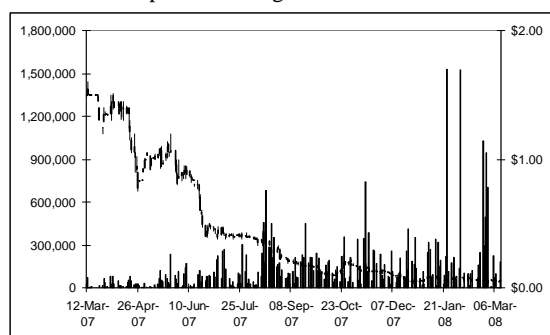
Sector/Industry: Junior Mining (Gold)

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

### Market Data (as of March 11, 2008)

|               |                     |
|---------------|---------------------|
| Current Price | US\$0.055           |
| Fair Value    | US\$0.07 (↓)        |
| Rating*       | SELL                |
| Risk*         | 5 (Highly Spec)     |
| 52 Week Range | US\$0.03 - US\$1.60 |
| Shares O/S    | 74,824,372          |
| Market Cap    | US\$4.12 million    |
| Current Yield | N/A                 |
| P/E (forward) | N/A                 |
| P/B           | N/A                 |
| YoY Return    | -96.33%             |
| YoY OTCBB     | N/A                 |

\*see back of report for rating and risk definitions



### Investment Highlights

- Hemis Corporation is exploring for gold at Anchor Point, Alaska, and gold-silver-copper-molybdenum at the El Tigre property in Sonora, Mexico.
- Since our initial report, the company has joint ventured El Tigre to Monte Cristo Gold Corporation, and the Anchor Point Gold project to Condor Gold. We believe the joint venture dilutes the company's interest in the project and ability to participate in exploration upside, but injects necessary capital towards the advancement of the projects.
- Preliminary drilling on El Tigre in 2007 was successful in identifying new copper, gold, and molybdenum mineralized breccia zones. A 10-12 hole drilling program is planned for Q1-2008.
- The company has identified offshore magnetic anomalies in the Anchor Point Project, Cook Inlet, Alaska. Drilling in 2007 intersected coarse gravel sediments, and the company is awaiting gold assay results.
- We initiated coverage on the company in October 2007 with a SELL rating and a fair value estimate of \$0.14 per share when HMSO's shares were trading at \$0.20 per share. Since then, prices have dropped considerably, and are currently trading at \$0.055 per share. We have revised our fair value estimate on the company to \$0.07 per share. We have maintained our SELL rating on the company because of its insufficient cash position.

### Risks

- The company has not delineated any NI 43-101 compliant resource estimates and does not have any operating mines. Risks include the volatility of commodity prices and delays affecting the entire mining industry.
- We are also concerned about the company's liquidity position. The company plans to spend about \$9.75 million on its mineral properties and administrative costs for the twelve month period (ending October 2008). We estimate about \$4.66 million of the amount are mandatory payments. However, HMSO has cash of only \$0.16 million and a working capital deficit of \$1.41 million as at September 30, 2007.

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

| (US \$)                   | 2005<br>(Feb 9-05 to Dec 31-05) | 2006        | 2007<br>9 mo |
|---------------------------|---------------------------------|-------------|--------------|
| Cash and cash equivalents | 327,049                         | 2,437,981   | 157,647      |
| Working Capital           | 280,173                         | 1,833,346   | (1,411,465)  |
| Total Assets              | 391,550                         | 2,814,993   | 397,264      |
| Net Loss                  | (1,237,203)                     | (6,829,936) | (11,222,819) |
| Loss per Share            | (0.02)                          | (0.47)      | (0.17)       |

*Hemis Corporation is exploring for gold in Mexico and Alaska. The El Tigre property is a gold, copper, and molybdenum breccia target in Sonora, Mexico. The company identified several mineralized zones in their 2007 drilling program. The Anchor Point property is an offshore placer gold target in the Cook Inlet of Alaska. Early stage exploration is underway.*

**Company  
Overview**

Hemis has a two-fold growth strategy. The company started as a mineral investment company, and they maintain a large equity interest in a number of junior exploration companies that were spun off from Hemis. They are also exploring for gold in Sonora, Mexico, and Alaska. All of the company's exploration properties are in early stages of exploration. HMSO intends to spend \$10.3 million on exploration activities, and general and administrative expenses over the next 12 months. The company had only \$0.16 million in cash at the end of September 2007; therefore, they will have to raise all the funds required for the proposed exploration program.

**Properties  
Overview**

| Project      | Location           | Target                                | Status                                   | Ownership  |
|--------------|--------------------|---------------------------------------|--|--|
| El Tigre     | Sonora, Mexico     | Polymetallic-gold, copper, molybdenum | Delineation drilling                     | Joint ventured to Monte Cristo, who can earn 60% |
| Anchor Point | Cook Inlet, Alaska | Offshore placer gold                  | Prelim drilling, geophysics completed    | Joint ventured to Condor Gold, who can earn 60%  |
| Santa Rita   | Zacatecas, Mexico  | Gold and silver                       | Hemis dropped the option with Corex Gold |  |

**El Tigre  
Property**

**Property Overview:** The El Tigre property is a gold, copper, and molybdenum property in Sonora, Mexico. The company has released drilling results from the 2007 drilling program, which intersected polymetallic gold, copper, and molybdenum mineralization in several breccia zones. The property has been optioned to Monte Cristo Gold Corporation, who can earn up to 60% interest. Monte Cristo has the same management as Hemis Corporation.

**Ownership:** The company has entered into an option agreement with Monte Cristo Gold Corporation, a private company that plans to list on the OTC Bulletin Board, whereby Monte Cristo may earn 49% interest in Hemis's interest in the El Tigre project. Monte Cristo can earn 49% interest by paying US\$100,000 to Hemis upon signing, and US\$1.9 million by November 2008. Monte Cristo may increase its interest to 60% by paying an additional US\$2.0 million in the second year. Hemis remains as operator.

The company has completed their option to acquire 67.5% interest in the El Tigre and Porvenir claims. This agreement is with private individuals who are Mexican nationals. They have other option agreements in place on surrounding claims that are considered part of the El Tigre property. This includes an option to acquire 75% interest in six claims known as La Centala, and an application to acquire 100% interest in La Casita through staking.

**2007 Drilling Results:** Since our initial report, the company has released further drilling results from the Monument Breccia Zone. These results are interesting, as they suggest potential for a low-grade polymetallic bulk tonnage target. However, further drilling is required and we would like to see more continuity in mineralization between holes. The results of three holes testing the Main Pit and Eastern High breccia zones are pending. We believe the 2007 drilling program was successful in identifying mineralization and that follow up drilling is warranted.

| Interval        | Width     | Gold Grade<br>(g/t) | Silver Grade<br>(g/t) | Moly Grade<br>(%Mo) | Copper Grade<br>(%Cu) |
|-----------------|-----------|---------------------|-----------------------|---------------------|-----------------------|
| ELT-001 -       |           |                     |                       |                     |                       |
| 16 to 32 meters | 16 meters |                     |                       | 0.03%               |                       |
| 42 to 70 meters | 28 meters | 0.758               | 5.92                  |                     |                       |
| ELT-002 -       |           |                     |                       |                     |                       |
| ELT-003 -       |           |                     |                       |                     |                       |
| 32 to 34 meters | 2 meters  | 3.09                | 5.2                   | 0.06%               |                       |
| ELT-004 -       |           |                     |                       |                     |                       |
| 36 to 44 meters | 8 meters  | 1.09                |                       |                     |                       |
| 52 to 58 meters | 6 meters  | 1.095               | 8.1                   | 0.06%               |                       |
|                 |           |                     |                       |                     |                       |
| ELT-005 -       |           |                     |                       |                     |                       |
| 22 to 54 meters | 32 meters | 0.739               | 6.07                  |                     | 0.26%                 |

**Current Status:** According to company filings, further drilling is planned in Q1-2008 to follow up on Phase I breccia drilling in the Monument Breccia Zone, explore early stage targets, and test the molybdenum potential of the La Centala claim. The company plans to drill 10-12 holes for an estimated cost of \$1.595 million.

**Resource Estimates:** This property does not have any historic or NI 43-101 compliant resource estimates at this time.

### **Anchor Point Gold Project**

**Property Overview:** The Anchor Point Gold project is an offshore placer gold play in the Cook Inlet. The current project area is as follows: from the city of Anchorage, Alaska, due west to the western shore of Cook Inlet, and extending south to a line running between the village of Seldovia on the east side of Cook Inlet to the western shore of Cook Inlet. This is a highly speculative and capital intensive project, but management feels it is their best property. The project has been joint ventured to Condor Gold, who is funding exploration on the property. At this time, we believe the project should be classified as “blue sky” potential.

**Ownership:** The company has optioned the Anchor Point Gold Project to Condor Gold. Condor Gold may acquire 49% interest by paying US\$100,000 to Hemis upon signing and US\$1.9 million by November 2008. Condor Gold may increase its interest to 60% by paying an additional US\$2.0 million in the second year. Hemis remains as operator.

The company has rights to acquire various offshore prospecting permit applications and a non-exclusive license of geologic information in the property from Aspen Exploration Corporation (OTC.BB: ASPN). Hemis acquired this package for a \$50,000 retainer and annual payments of \$50,000 beginning in September 2007. The term of the agreement is 30 years. Aspen retains a 5% gross royalty on all mineral production from the offshore prospecting permit applications.

**Current Status:** Hemis secured permitting for offshore exploration and completed a small exploration program in September and October 2007. The length and success of this

program was hindered by heavy wave action and weather related delays. A geophysical survey consisting of a fathometer, side-scan sonar and a sparker survey was conducted. This program determined water depth, magnetic response, ocean floor ground conditions, and image sediments up to 40 meters thick. A small drilling program was completed using a Vibracore drill rig. The Vibracore system uses a vibrating drill head to drill through unconsolidated sediments. The drilling program was hindered by high seas, and core was recovered from 11 of the 15 target areas. Nine holes intersected coarse gravel sediments. The samples are undergoing heavy mineral analysis and sorting as well as fire assay. No results have been made public at this time.

According to company filings, the company is planning a sampling and drilling program for the spring of 2008. The company plans to spend \$1.0 million on exploration over the next 10 months.

**Resource Estimates:** This property does not have any historic or NI 43-101 compliant resource estimates at this time.

***Santa  
Rita/Zuloaga  
Property***

**Property Overview:** The 39,878 hectare Santa Rita (or Zuloaga) property, owned by Corex Gold (TSX.V: CGE), has been joint ventured to Goldcorp (TSX: G), who can earn up to 80% interest. Hemis terminated their option to earn 49% of Corex's remaining interest in the property. The property is 15 kilometers from Goldcorp's Penasquito deposit, and drilling is underway.

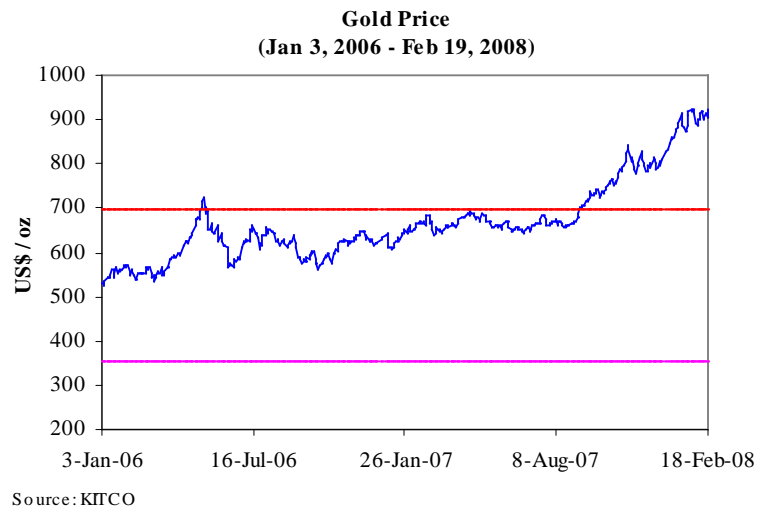
**Current Status:** Hemis terminated the option agreement with Corex Gold.

***Other  
Properties***

The company continues to acquire properties in Mexico, Canada, and the United States as part of their growth strategy. Until such time as these projects become material to the company's operations, we will not include them in our report.

***Outlook on  
Gold***

The chart below shows gold prices since January 2006. Gold prices are currently trading at their record highs, and as of March 5, 2008, were trading at US\$990/oz, which reflects a YOY increase of 54%.

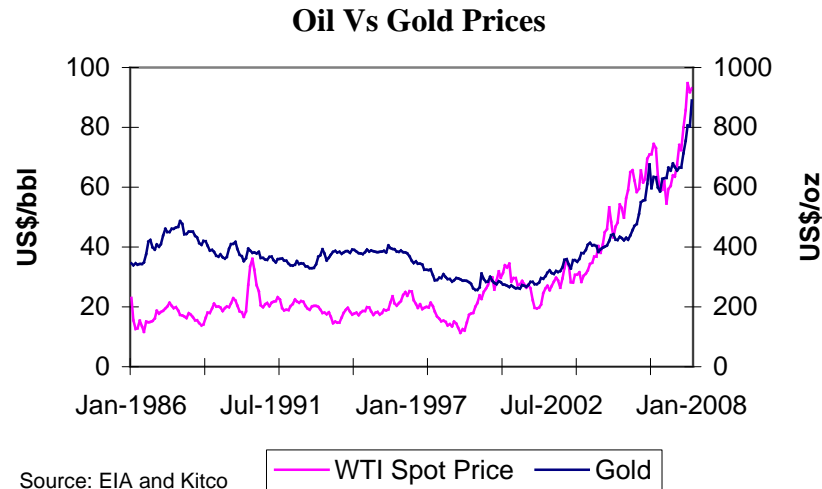


Although gold prices have risen considerably in the second half of 2007, and early 2008, and are currently trading at record highs, we have maintained our positive outlook on gold due to the following macro economic conditions:

**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. Even though the U.S. Fed cut interest rates from 5.25%, to 3.00%, in their last five meetings, we expect to see further rate cuts in the first half of 2008, to tackle the ongoing credit crunch problems and the softening U.S. housing industry. Further rate cuts imply that real interest rates in the U.S. could possibly 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\$100/bbl, and prices are expected to stay above \$80/bbl through at least 2010, which we believe will also have a positive effect on the demand for gold.

**c) Investment demand continues to stay strong:** Currently, total ETG (exchange traded gold) assets held by the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE) are up 29% 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\$870/oz in 2008, and US\$880/oz in 2009.

## Financials

In the first 9 months of FY2007 (ended September 2007), the company recorded a net loss of \$11.22 million (EPS: -\$0.17), compared to a net loss of \$3.25 million (EPS: -\$0.22) in the comparable period in the previous year. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.40 million per month in the first 9 months of FY2007, compared to \$0.21 million per month in FY2006 (12-month period). At the end of September 2007, the company had cash and working capital of \$0.16 million and (\$1.41 million), respectively, compared to \$2.44 million and \$1.83 million at the end of FY2006. The table below shows the company’s cash and liquidity position at the end of September 2007.

| (US \$)                        | 2005     | 2006      | 2007 - 9 mo |
|--------------------------------|----------|-----------|-------------|
| Cash and cash equivalents      | 327,049  | 2,437,981 | 157,647     |
| Working Capital                | 280,173  | 1,833,346 | (1,411,465) |
| Current Ratio                  | 3.8      | 3.0       | 0.2         |
| LT Debt / Assets               | -        | -         | -           |
| Burn Rate (per month)          | (35,705) | (208,284) | (399,463)   |
| Cash From Financing Activities | 707,661  | 4,661,907 | 1,246,673   |

**Stock Options and Warrants:** At the end of September 2007, the company had 100,000 stock options outstanding, with exercise prices ranging between \$1.00 and \$1.50, and weighted average remaining contractual lives between 3.50 and 4.50 years. We estimate the company had 61,000 warrants outstanding (including the 40,000 warrants issued in October 2007), with an exercise price of \$1.00, and maturity periods between June and July 2009. None of the options and warrants are currently in the money.

**Conclusion:** At the end of September 2007, the company had only \$0.16 million in cash and a working capital deficit of \$1.41 million. The company plans to spend about \$9.75 million on its mineral properties and administrative costs for the twelve months period ending October 2008, with \$5.55 million on exploration and acquisition costs related to its mineral properties (about \$1.40 million exploration expenses in the joint El Tigre Gold Project and \$1 million exploration expenses in the Anchor Point Gold Project), \$4 million on General & Administrative expenses, and \$0.2 million to purchase securities in other mineral exploration companies. We estimate about \$4.66 million of the total amount are mandatory payments (including amounts associated with payments for mining rights/permits and G&A expenses). Therefore, we estimate the company will have to raise about \$5.02 million in the next 12 months.

## Valuation

All of the company's properties are in early stages with no resource estimates, and we continue to value the company based on the average ratio of enterprise value (EV) to mineral assets (book value) of peers. Although EV/mineral assets does not really capture the upside potential of a junior exploration company, we believe it is a good metric (and probably the only metric) to determine the fair value of a company possessing early stage exploration projects with no known resource estimates. The table below shows our comparables analysis.

| Relative Valuation            |        |         |                  |                             |                  |
|-------------------------------|--------|---------|------------------|-----------------------------|------------------|
| Company                       | Symbol | Price   | Enterprise Value | Mineral Assets (book value) | EV / Min. Assets |
| 1 Aurea Mining Inc.           | MXA    | \$0.10  | \$3,570,660      | \$5,035,480                 | 0.71             |
| 2 Consolidated Spire Ventures | CZS    | \$0.12  | \$5,508,374      | \$6,031,117                 | 0.91             |
| 3 Soho Resources Corp.        | SOH    | \$0.22  | \$16,273,228     | \$13,865,142                | 1.17             |
| 4 Hemis Gold Corporation      | HMSO   | \$0.055 | \$4,476,805      | \$2,148,952                 | 2.08             |
| 5 Golden Goliath Resources    | GNG    | \$0.28  | \$10,820,704     | \$4,976,201                 | 2.17             |
| 6 Tumi Resources              | TM     | \$0.56  | \$12,814,225     | \$3,751,145                 | 3.42             |
| 7 Soltoro Ltd.                | SOL    | \$0.50  | \$8,387,094      | \$2,096,891                 | 4.00             |
| 8 Oro Gold Resources          | OGR    | \$0.70  | \$11,863,470     | \$2,163,312                 | 5.48             |
| <b>Average</b>                |        |         |                  |                             | <b>2.49</b>      |
| <b>Fair value per share</b>   |        |         |                  |                             | <b>\$0.07</b>    |

Enterprise Value = Market Capitalization + Debt - Cash

Note: Hemis data is in US dollar and Market data is as of March 11, 2008

In November 2007, the company announced it has acquired one million shares of Tecton Corporation (OTCBB: TEON). We have included the market value of these shares (\$1.05 million at \$1.05 per share as of March 11, 2008) in the calculation of HMSO's cash position to determine its Enterprise Value, based on the assumption that the investment is not subject

to a holding period or other regulatory restrictions, which may limit the company's ability to sell these shares.

As shown in the table, HMSO's shares are currently trading at an EV/Mineral Assets ratio of 2.08, while the average ratio is 2.49, which means that the company's shares are under priced at current price levels. Our fair value estimate based on the average EV/Mineral Assets ratio of 2.49 is \$0.07 per share.

***Conclusions & Rating***

**Based on our valuation model and review of the company's progress since our previous report, we have lowered our fair value estimate from \$0.14 per share to \$0.07 per share, and have maintained our SELL rating.**

We are concerned about the company's cash position and working capital deficit as at the end of September 2007. Although our fair value estimate represents a 27.3% upside above the current price levels, we continue to be conservative, primarily because we believe the implementation of the company's planned exploration and acquisition activities depends heavily on its ability to raise external capital. If the company is unable to raise the required capital, we expect the company will have to delay its planned exploration activities. In addition, the company has mandatory payments for mining rights, and the company might lose the prospective projects if funds are not available to pay for the rights.

***Risks***

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

- The company's properties are all in early stages of exploration and there is no guarantee any will go into production.
- The value of the company depends heavily on commodity prices, notably gold, copper, and molybdenum.
- The company will be required to raise capital to complete their exploration programs in 2008.

We consider the company a high-risk investment as the company is still in its exploration stage. At this stage, we therefore rate the shares a **RISK of 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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