

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

Brian Tang, BBA, CFA  
Analyst

Siddharth Rajeev, B.Tech, MBA  
Analyst

Martha Buckwalter-Davis, BA (Geology)  
Research Associate—Mining and Energy

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## Mindoro Resources Ltd. (TSXV: MIO) – Update on Kay Tanda and Agata Project Advancement

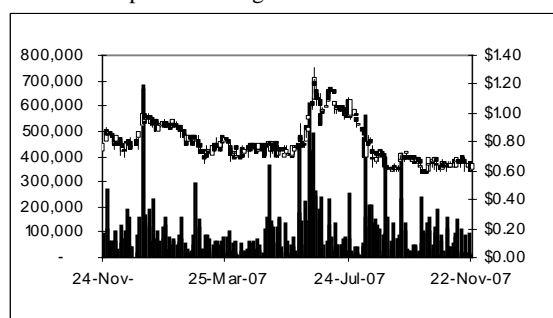
Sector/Industry: Junior Mining/Gold/Nickel/Copper

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

### Market Data (as of November 27, 2007)

Current Price	C\$0.55
Fair Value	C\$0.90 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.55 – C\$1.31
Shares O/S	89,202,405
Market Cap	C\$49.06 mm
Current Yield	N/A
P/E	N/A
P/B	3.01
YoY Return	-34.5%
YoY TSXV	-1.0%

\*see back of report for rating and risk definitions



### Investment Highlights

- Mindoro holds a large number of exploration projects in the Philippines targeting copper, gold, and nickel.
- The company's primary focus at this time is the generation of cash flow from the Agata nickel laterite. The company hopes to be in production in the first half of 2008.
- NI 43-101 compliant resource estimates for Agata and Kay Tanda, an epithermal gold project, expected in 2007, have been delayed due to lack of independent qualified persons to write the report.
- In the long term, the company hopes to exploit large copper-gold porphyry deposits. These deposits are attractive in the Philippines, as they have higher than average gold grades.
- We have lowered our fair value estimate on the company from \$1.45 per share to \$0.90 per share. Our fair value estimate dropped because we now estimate, for conservatism, that Mindoro will receive only 15% (instead of 25%) of the nickel value for its DSO nickel laterites.

### Risks

- The success of drilling, expansion and determination of favorable resource estimates are important long-term success factors for the company.
- The Philippines has had a recent history of strong anti-mining movements that have shut down or delayed mining operations.

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

(C \$)	2004	2005	2006	Q2-2007
Cash	1,295,541	1,419,311	3,602,179	2,041,871
Working Capital	1,190,977	1,661,679	3,146,785	1,458,057
Mineral Assets	3,827,536	5,640,433	9,666,017	14,591,846
Total Assets	5,294,078	7,571,132	13,621,373	17,039,659
Net Loss	(1,152,519)	(1,904,007)	(1,874,551)	(1,077,454)
Loss per Share	(0.03)	(0.04)	(0.03)	(0.02)

Mindoro Resources has over 20 exploration projects covering more than 55,000 hectares in the Philippines. The company holds a very large land position targeting district scale epithermal and porphyry projects. They also have 75% interest in the Agata nickel laterite project, which they hope to produce DSO ore from by 2008. The Philippines is a country of great mineral wealth that has seen a mineral exploration revival in the last 3 years.

### Company Overview

In our initial report, dated July 9, 2007, we introduced Mindoro Resources. The company is focused on new discoveries in the Philippines, a mineral rich country that has seen increased mining attention in recent years. The company targets epithermal gold and copper-gold porphyry projects in three district scale projects in the Philippines (shown below). They currently have at least 29 named prospects: 22 copper-gold porphyry prospects, 5 epithermal prospects, 1 nickel laterite prospect, and 1 massive sulfide prospect. This year, they are focused on resource delineation, permitting, and construction at Agata, a nickel laterite project. Resource delineation at Kay Tanda, an epithermal gold project, is also ongoing.



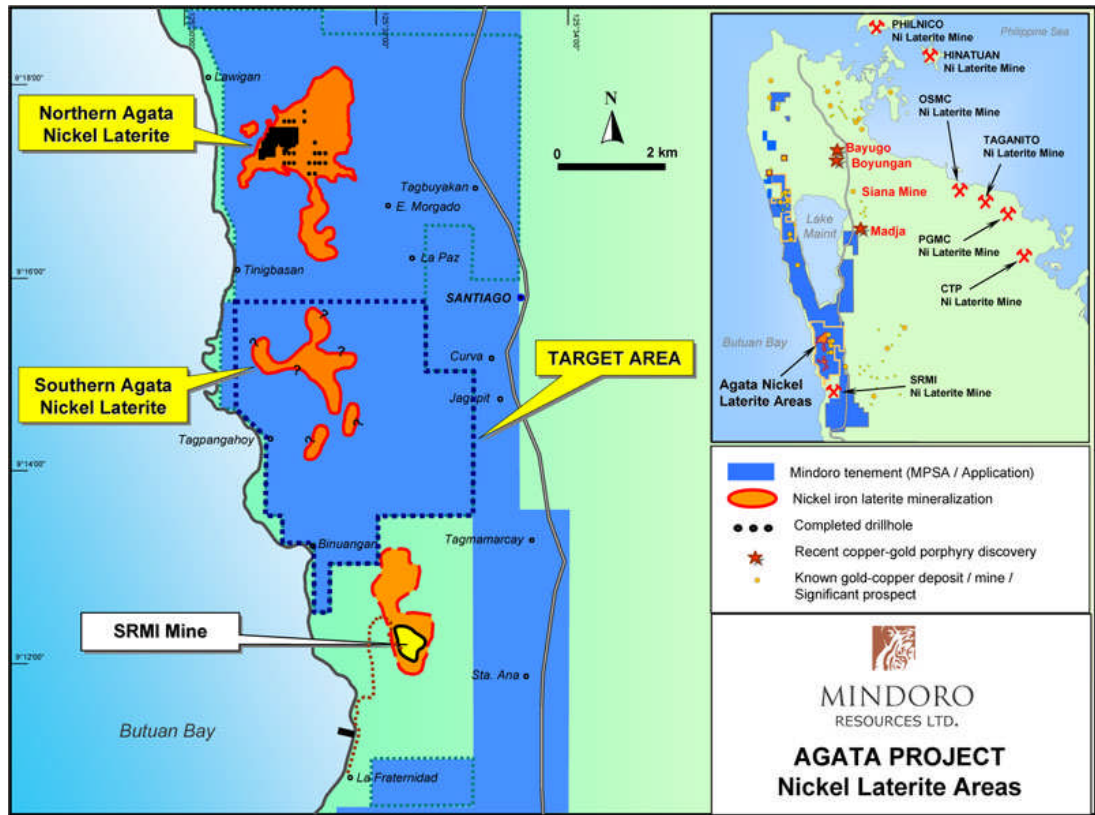
Source: Mindoro Resources

### Mineral Tenure

The company holds Mineral Production Sharing Agreements (MPSA) at their key projects in Batangas and Surigao, including Lobo, Archangel (Kay Tanda), and Agata. This is the highest level of mineral tenure in the Philippines, and it carries the project from exploration to production. Unlike the Small Scale Mining Permits (SSMP), there is not a production cap under a MPSA. They hold a large land position under Exploration Permits. **Since our initial report, the company was granted an exploration permit covering the El Paso Prospect and five other parcels of land in the Batangas project area. Drilling is planned for El Paso in early 2008.** The company has also filed the application for an Environmental Compliance Certificate at Agata, and plans to begin the process for Kay Tanda in 2007.

### Properties Overview

Mindoro has over 20 active exploration projects covering thousands of hectares. Many are in very early stages. In this update, we will summarize the work that has been completed on their properties since our initial report. Therefore, in this report, we will focus on the Agata Nickel Project in the Surigao property, and the Kay Tanda Gold Silver Project in the Batangas property. The company plans to take Agata into production next year, and Kay Tanda into production in the next three years, while advancing their best copper-gold porphyry projects.



Source: Mindoro Resources Ltd.

**Agata Nickel Laterite Project**

**Property Overview:** The 4,555 hectare Agata project in the Surigao district contains a number of exploration targets. At this time, the company is focusing on the Agata North nickel laterite project, which offers the potential for direct shipping ore. This is a profitable, low cost producing option that would allow the company to go into production quite quickly. The ore is sold to smelters in Korea, Japan, and China, and the company receives a percentage of the value of the nickel.

**Ownership:** In March 2007, the company purchased their joint venture partner’s 40% interest, bringing Mindoro’s total interest to 75%. The remaining 25% interest is held by Minimax Mineral Exploration Corp., a private company based in the Philippines. The company can increase to 85% at feasibility stage through an interest purchase agreement with Minimax, depending on future established mining reserves.

**Joint Venture to advance Agata South**

The company has optioned the Agata South Laterite deposit to Delta Earthmoving Ltd. Delta is a private company in the Philippines that is already producing DSO nickel laterite at several projects throughout the Philippines. Under the terms of the agreement, Delta will finance all exploration on the southern Agata project. Within six months, Delta may select an area of up to 250 hectares to advance to production. Delta will finance all mine development and production costs. Mindoro will receive 45% of the net profits.

**Accessibility and Infrastructure:** The company has completed preliminary road design and mine planning. We expect them to complete a scoping study in the next year.

**Geology and Mineralization:** The nickel laterite deposits at Agata were formed from the weathering of Cretaceous age ultramafic rocks. There are several layers of nickel bearing mineralization at Agata, each with different metallurgy, average nickel content, and consumer end use.

***Direct Shipping Ore***

The company initially intends to produce direct shipping ore (DSO). By producing DSO, the company does not have to process ore on site, instead, it passes the ore on to end users that process the ore and reimburse Mindoro for approximately 25% of the value of nickel, depending on the nickel grade. These end users can be found in China, Japan, and Korea. Mindoro has reported that at least 15 parties interested in purchasing ore from Agata have approached the company.

**Current Developments:** The company is currently conducting a drilling program to outline an NI 43-101 compliant resource. They have completed at least 95 drill holes to date. The drilling results have all been positive, indicating the property has potential for ferro-nickel laterite production potential. They hope to delineate enough ore to provide 3-5 years of direct shipping ore at 700,000-1,000,000 tonnes/year, but drilling has indicated the potential is much greater than that. The area being drilled is only approximately 10% of the nickel laterite mineralization mapped to date. We expect the company will complete a scoping study following the resource estimate.

The company has filed their Environmental Impact Statement. They expect the Environmental Compliance Certificate by the end of February 2008. This could be delayed by several months, but we have accounted for a two-month delay in our timeline. The company plans to commence mine and infrastructure construction shortly after receipt of this certificate, and is lining up supplies and labor for this work. Construction is expected to take three months. Therefore, we conservatively expect production by July 2008.

Delta is aiming for production at the southern Agata laterite in the first half of 2008 as well. Mindoro reported in October 2007, that Delta had begun drilling with three drill rigs.

**Resource Estimates:** A NI 43-101 compliant resource estimate is expected early in 2008. This is delayed from previous estimates due to availability of consultants. The Agata project had an initial exploration target on the drill defined region with a target resource in the limonite layer of 2-3.5 million tonnes grading 0.9-1.2% nickel and 40-45% iron. On June 20, 2007, the company announced an upgraded Exploration Target based on drilling to date and detailed mapping in the northern laterite region that incorporates the ferruginous overburden, limonite, and saprolite horizons. This new exploration target covers the entire Northern Nickel Laterite. **The new Exploration Target totals 50-60 million wet tonnes grading 0.9-1.1% nickel and 28-42% iron.** This includes 30-35 million tonnes in the ferruginous overburden and limonite layers, and 20-25 million tonnes of material in the saprolite layer. The ferruginous overburden has a higher iron grade of 40-44% iron. The saprolite horizon has a lower iron grade of 8-10% iron.

**Kay Tanda  
Gold-Silver  
Project**

**Property Overview:** The Kay Tanda project is a large tonnage epithermal gold and silver deposit. The company aggressively drilled the deposit in 2006, and a NI 43-101 compliant resource estimate is expected in November 2007.

**Ownership:** The company has earned 51% in the Batangas projects to date, with the potential to earn 75% by producing a bankable feasibility study on any one deposit within the Batangas projects.

**Geology and Mineralization:** The Key Tanda project, as it is defined currently, is a low-grade oxidized epithermal gold project. The company has delineated mineralization in the upper 150 meters within a kilometer by kilometer area. The company believes the near surface mineralization will be amenable to low cost, open pit extraction. There is still great potential for bonanza grade, sulfide mineralization at depth. Drilling has intersected copper-gold porphyry style mineralization on the property as well.

**Metallurgy:** Since 2004, the company has completed metallurgical test work indicating that the ore is highly amenable to heap leaching. Recovery rates for the oxide and transitional mixed oxide and sulfide material ranged from 70%-80% depending on grain size. The recovery of the coarser material (50 mm) was approximately 10% lower than the fine material grind size. Crushing is usually the most expensive part of a processing plant, so a coarser grind would be ideal for a low cost operation. However, coarse material requires a longer leach time. The optimal grind size and recovery period will be determined through a feasibility study. These results are summarized in the table below.

Ore Type	Crush size (mm)	Leach time (days)	Calculated Head		% Recovery		Reagent consumptions (kg/t)		
			g/t Au	g/t Ag	Au	Ag	Cement	Cyanide	NaOH
Oxide	- 12.7	29	1.14	3	82.4	32	2	1.43	0.46
	- 50	70	1.09	3	80.7	29	2	1.42	0.35
Transition	-12.7	23	1.06	2	78.3	42	3	1.47	2.69
	- 50	70	0.95	1	80.1	56	6	1.57	0.62

Source: Mindoro Resources Ltd.

**Current Developments:** Drilling has been completed at Kay Tanda. Mindoro has completed over 150 reverse circulation and 23 core drill holes. The average grades are in the 0.8-1.2 g/t gold range, and there is potential to increase the overall grade through the delineation of the bonanza grade feeder zones. The company has identified at least 5 bonanza zones beginning at 150 meters below surface.

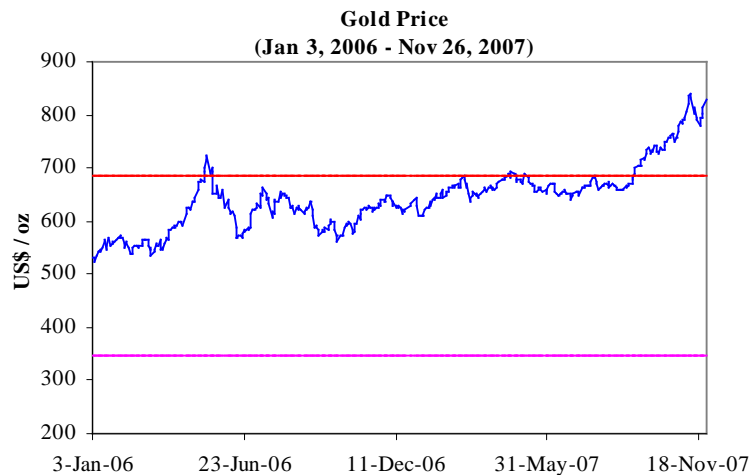
**Resource Estimates:** Drilling to delineate a NI 43-101 compliant resource estimate at Kay Tanda has been completed. This resource estimate is expected by the end of 2007.

Based on a statistical analysis performed by Golder Associates, the company's independent engineering consultant, the company has calculated an exploration target for the Kay Tanda Project. An exploration target projects a possible resource based on the limited exploration completed. At a cut-off of 0.3 g/t gold, the exploration target is from 35-40 million tonnes of open pitable ore at a grade of 0.76 to 0.80 g/t gold and 2.4 to 2.8 g/t silver. This is a potential resource of 860,000 to 1,000,000 ounces of gold and 2.7 million to 3.6 million ounces of silver.

At a higher cut-off of 0.5 g/t gold, the exploration target is from 15-20 million tonnes of open pitable ore at a grade of 1.1 to 1.4 g/t gold and 3.0-3.4 g/t silver. This is a potential resource of 530,000 to 900,000 ounces of gold and from 1.45 to 2.2 million ounces of silver.

### **Outlook on Gold**

The chart below shows gold prices since January 2006. As of November 26, 2007, gold was trading at US\$830/oz, which reflects a YOY increase of 30%.



Source: KITCO

Although gold prices have risen considerably in the past few weeks, and is currently trading at record highs, we have maintained our positive outlook on gold due to the following macro economic conditions:

Gold is traditionally viewed as a capital preservation asset and regarded as a better hedge against the U.S. dollar, inflation and geopolitical risks, than any other commodity. Historically, gold prices have been negatively correlated to the U.S. dollar. The U.S. dollar is expected to depreciate with respect to other major global currencies, based on an expected slow down in the U.S. economy, and relatively lower real interest rates in the U.S., compared to other major countries in the world.

The U.S. housing industry is not expected to recover before mid-2008, and recently, the U.S. economy reported job losses for the first time in four years. Both these factors further signal a slowdown in the U.S. economy. The U.S. Federal Reserve cut interest rates by 75 basis points (to 4.50%) in their last two meetings, as a move to tackle the ongoing credit crunch problems and the softening U.S. housing industry. All these factors suggest that the U.S.

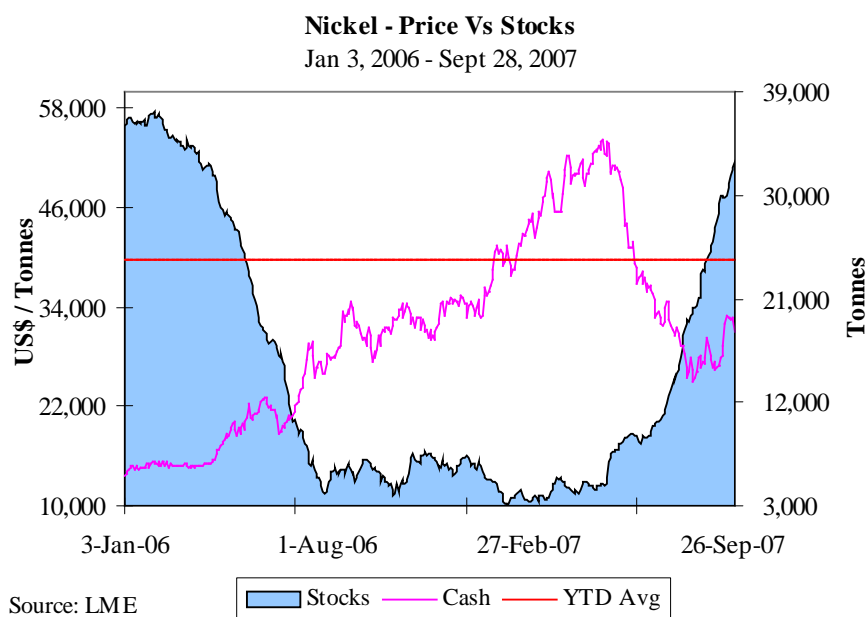
dollar will depreciate further going forward, which will help gold prices stay high.

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. Oil is currently trading at record highs (US\$94/bbl), and prices are expected to stay above \$70.00/bbl for the rest of the year and 2008, which we believe will also have a positive effect on the demand for gold.

Therefore, based on a forecasted depreciation in the U.S. dollar, higher inflationary expectations, relatively lower U.S. real interest rates, and high oil prices, we continue to be bullish on gold prices. We do not expect prices to move up from current levels for the rest of the year, however, we expect prices to gradually move up, as the U.S. economy moves closer to a recession. The average forecasts for gold prices are US\$670/oz in 2007, and US\$749/oz in 2008.

### ***Outlook on Nickel***

Nickel (prices) has been one of the most volatile commodities in the past 18 months. Nickel prices have dropped by 42% since achieving their record high of US\$24.54/lb in May 2007. As of October 30, 2007, nickel was trading at US\$14.17/lb, which reflects a YOY decline of 4.7%. However, prices are still up 131.3% since the beginning of 2006.



The recent decline in prices was primarily due to an increase in inventory levels. LME stocks as of September 28, 2007, were 32,934 tonnes (compared to 6,648 at the end of 2006), a YOY increase of 542.7%. Based on global daily consumption of 3,600 tpd, current inventories will suffice for about nine days.

Our outlook on nickel prices has not changed since our initiating report in July 2007. We believe that surging demand from stainless steel will keep nickel prices at current levels for the rest of 2007 and 2008. Over the long-term, we continue to expect prices to soften from

current price levels based on slower growth in global GDP, and an increase in global production levels. According to the International Monetary Fund (IMF), global GDP growth is expected to decline to 4.9% in 2008, compared to 5.4% in 2006. However, we believe that global economic growth rate forecasts are high enough to support above average historic prices for nickel. The average forecasts for nickel prices are US\$17.10/lb in 2007, and US\$14.50/lb in 2008, which are significantly higher than historical average prices of nickel.

### **Financials**

We estimate MIO had a burn rate (cash spent on operating and exploration activities) of \$0.98 million per month in the first six months of FY2007, compared to \$0.42 million per month in FY2006 (12 month period). The table below shows the company's cash and liquidity position at the end of Q2-2007 (June 2007).

	2004	2005	2006	Q2-2007
Cash	1,295,541	1,419,311	3,602,179	2,041,871
Working Capital	1,190,977	1,661,679	3,146,785	1,458,057
Current Ratio	6.1	9.2	5.9	3.0
LT Debt / Assets	-	-	-	-
Cash from financing activities	2,395,626	2,728,714	7,198,122	4,321,292
Burn Rate (per month)	(116,405)	(217,079)	(417,938)	(980,267)

At the end of June 2007, the company had cash and working capital of \$2.04 million and \$1.46 million, respectively, versus \$3.60 million and \$3.15 million at the end of FY2006 (December 2006).

Since June 2007, the company raised \$8.09 million through two private placements, by issuing 13.49 million units at a unit price of \$0.60. Each unit consists of one common share and one share purchase warrant (exercise price - \$0.90 per share in the first year, and \$1.10 per share in the second year). Note that each unit consists of one whole warrant (in addition to one common share). This was uncommon until mid 2007, as junior mining companies normally used to include only one-half share purchase warrant and a common share in a unit, especially when the unit price is close to the share price. **This shift, we believe, shows that junior miners now have to offer more incentives to investors for the same 'risk' levels.**

**Stock Options and Warrants:** At the end of June 2007, the company had 6.10 million stock options outstanding (2.58 million are currently 'in-the-money' – assuming that none of the warrants were exercised since June 2007), with a weighted average exercise price of \$0.67, and maturity periods between 1.16 years and 4.44 years.

The company also had 6.98 million warrants outstanding (all of them are currently 'out-of-the-money'), with a weighted average exercise price of \$1.06, and maturity periods between December 2007 and May 2009. In relation to the recently completed two private placements, the company issued additional 13.49 million warrants (exercise price - \$0.90 per share in the first year, and \$1.10 per share in the second year).

**Conclusions:** Based on a burn rate of \$0.98 million per month, we estimate the company

will have sufficient access to capital until mid-2008.

### **Valuation**

We have continued to value the company based on the company's two most advanced projects, namely the Agata Nickel Laterite project and the Batangas project (Kay Tanda and SW Breccia).

**Agata Nickel Laterite Project:** We made the following changes in our revised Discounted Cash Flow (DCF) model of the Agata project.

- In our initiating report, we had made the assumption that Mindoro would receive 25% of the nickel value. Payments normally depend on grades of the deposits. Our research indicates that DSO nickel laterites in the Philippines normally receive between 9% - 25% of the nickel value, with high-grade deposits (grades above 1.35% Ni) receiving a maximum of 25%. Since the grades of the Agata project are estimated to lie between 0.9% and 1.2%, we now estimate that Mindoro will receive only 15% (instead of 25%) of the nickel value, for conservatism. This change in our model had a significant negative impact on valuation.
- Based on increased confidence in the company's exploration target, we have increased the mine life from 10 years to 14 years while maintaining the operating rate.
- Previously, we had used a discount rate of 12%, which we now believe did not accurately reflect the country risk premium of projects in the Philippines. Therefore, we have increased the discount rate from 12% to 15.63% (11.63% discount rate of a similar project in a relatively risk-free country + 4% country risk premium for the Philippines).
- Increased number of diluted shares from 77.91 million to 90.18 million.

As a result of all the above-mentioned changes, our valuation on the Agata project dropped from \$80.64 million (\$1.04 per share) to \$40.27 million (\$0.45 per share). Note that our valuation does not account for any value of the Agata South Laterite deposit that has been optioned to Delta Earthmoving Ltd. A summary of our valuation model is shown below.

<b>Agata Nickel Laterite Project</b>	
Resource (in tonnes)	9,800,000
Nickel Grade	0.9% - 1.2%
Contained Nickel (in lbs)	203,707,128
Production Commencement	mid 2008
Nickel Ore Shipped (tonnes p.a.)	700,000
Mine Life (in years)	14
Nickel Price Forecasts	\$US12/lb in 2008-09, US\$10/lb in 2010 - 11; US\$8/lb - 2012+
Shipping and Selling Costs	2.5% of Revenues
Operating Costs - extraction (US\$/tonne)	\$10.0
Capital Costs - in \$mm	\$3.00
Discount Rate	15.63%
Net Present Value	\$53,699,585
<b>Mindoro's Share (75%)</b>	<b>\$40,274,689</b>
No. of Shares (diluted)	90,176,572
<b>Value per share</b>	<b>\$0.45</b>

**Batangas Project:** We made the following changes in our revised valuation

- Increased our long-term gold price forecast from US\$550/oz to US\$600/oz.
- Increased discount rate from 12% to 15.49% (11.49% discount rate of a similar project in a relatively risk-free country + 4% country risk premium for the Philippines).
- Increased number of diluted shares from 77.91 million to 90.18 million.

As a result of the above-mentioned changes in our model, our valuation on the Batangas project dropped from \$26.27 million (\$0.34 per share) to \$23.27 million (\$0.26 per share).

<b>Batangas Project (Kay Tanda and SW Breccia)</b>		
	<b>Kay Tanda</b>	<b>SW Breccia</b>
Resource (in tonnes)	17,500,000	300,500
Gold Grade (gpt)	1.22	6.29
Silver Grade (gpt)	3.20	
Recovery (Gold)	75.0%	75.0%
Recovery (Silver)	40.0%	
Recovered Gold (in troy oz)	514,814	45,602
Recovered Silver (in troy oz)	720,177	
Production Commencement	2011	
Mill Processing (tpd)	5,000	
Mine Life (in years)	11.0	
Long-term Gold Price ( in US\$/oz)	\$600	
Long-term Silver Price (in US\$/oz)	\$11	
Average Operating Costs (\$/tonne)	\$5.0	
Capital Costs - in \$mm	\$40.00	
Discount Rate	15.49%	
Net Present Value	\$31,029,529	
<b>Mindoro's Share (75%)</b>	<b>\$23,272,147</b>	
No. of Shares (diluted)	90,176,572	
<b>Value per share</b>	<b>\$0.26</b>	

Adding the company's working capital and book value of all other properties to our valuation on the Agata and Batangas project, we have revised our fair value estimate on the company to \$0.88 per share (down from \$1.43 per share).

<b>Valuation Summary</b>	
	<b>Value per share</b>
Agata Nickel Laterite Project	\$0.45
Batangas Project (Kay Tanda and SW Breccia)	\$0.26
Book Value of all the other properties	\$0.12
Working Capital	\$0.06
<b>Fair value per share</b>	<b>\$0.88</b>

### **Conclusions & Rating**

We are pleased with the company's progress to date. We believe MIO's share price has dropped due to the fall in nickel prices. The company is very well placed in the Philippines, with mineral production sharing agreements on their key projects. We have taken a very conservative tonnage and grade calculation in our evaluation of the Agata project, but we prefer to be conservative until NI 43-101 compliant resource estimates are in place.

**Based on our revised valuation models, and review of the company's projects, we reiterate our BUY rating, but lower our fair value estimate on the company from \$1.45 per share to \$0.90 per share. Our revised fair value estimate reflects an upside potential**

**of 64% from current price levels.**

***Risks***

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

- The company has not defined any NI 43-101 compliant resource estimates on their key projects and does not currently have any operating mines.
- The success of drilling, expansion and determination of favorable resource estimates are important long-term success factors for the company.
- The company is subject to dilution risk as they attempt to advance a number of projects simultaneously.
- The value of the company depends on commodity prices.
- The success of the company is subject to political and sovereign risk.

**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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