

### North American Gem Inc. (TSX.V: NAG) –New Resource at Lake Louise, Update on Uranium Exploration

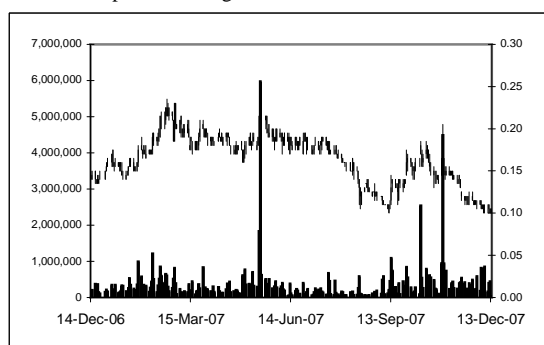
Sector/Industry: Junior Mining

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

#### Market Data (as of December 13, 2007)

Current Price	C\$0.10
Fair Value	C\$0.85 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.10 – C\$0.25
Shares O/S	71,576,994
Market Cap	C\$7.16 mm
Current Yield	N/A
P/E	N/A
P/B	1.68
YoY Return	-31.03%
YoY TSXV	-3.3%

\*see back of report for rating and risk definitions



#### Investment Highlights

- The company announced an upgraded resource estimate at Louise Lake of 26 million tonnes indicated and 125 million tonnes inferred. Resource expansion potential still exists. An internal scoping study is underway.
- The company has acquired two new uranium properties, Charles Lake in NE Alberta and Ranger Lake in Ontario. We expect the company to explore joint venture agreements to advance their numerous uranium properties efficiently.
- The company has completed the 2007 surface sampling program at Bonny Fault. These results confirmed historic exploration and delineated uranium mineralized zones at a number of targets.
- We have lowered our fair value estimate on the company from \$1.60 per to \$0.85 per share. Our valuation dropped primarily because we lowered our long-term copper and molybdenum price forecasts, and increased our capital cost estimates of the Louise Lake project.

#### Risks

- The success of drilling, expansion, and determination of favorable resource estimates is important to the long-term success of the company.
- Metallurgical testing indicates that Louise Lake ore has a high arsenic content. This may limit the ore's marketability for traditional smelting. However, the company has identified hydrometallurgical processing options that do not require smelting.

Key Financial Data (FYE - Dec 31) (C \$)	2004	2005	2006	Q3 - 2007
Cash	121,103	449,461	1,027,810	698,292
Working Capital	44,977	417,558	1,040,915	650,820
Mineral Assets	13,052	718,707	1,799,663	3,606,246
Total Assets	174,307	1,261,485	2,998,839	4,550,485
LT Debt	-	-	-	-
Net Income	(598,151)	(479,792)	(822,803)	(512,999)

North American Gem is exploring for gold, copper, silver, molybdenum, and uranium on 8 properties throughout Canada. They have a large indicated and inferred resource at their Lake Louise copper porphyry property. They also have several uranium/multielement properties in Alberta and Ontario.

**Company Overview** North American Gem is an exploration company that owns 100% of the Louise Lake property, an advanced stage copper porphyry project, and several early stage and grassroots uranium/multi-element properties. These properties are all located in Canada, one of the world's premier countries for mineral resources, security, and infrastructure. The company is still focusing their attention on Louise Lake, but also intends to more aggressively pursue its uranium properties, due to their geologic potential.

**Cost Overruns** The recent suspension of construction at Galore Creek, a large copper gold development project in northwestern British Columbia owned by NovaGold (TSX: NG) and Teck Cominco (TSX: TCK), is an extreme example of the cost overruns that are affecting the entire industry. This has the potential to affect the economics of large porphyry deposits, including NAG's Louise Lake.

**Properties Overview**

Property	Target	Location	Status as of 9/2006	Status as of 5/2007	Status as of 10/2007
Louise Lake	Cu, Mo, Ag, Au	British Columbia	NI 43-101 resource estimate	drilling expands deposit size, prelim. metallurgy	Updated NI 43-101 compliant resource estimate
Bonny Fault	IOCG, uranium	NE Alberta	Awaiting airborne survey results	Airborne survey provided exploration targets, new ground staked	Ground exploration underway, results received
Charles Lake	Uranium	NE Alberta	--	--	Acquired 7/07
Western Basin	Uranium	NE Alberta	Airborne survey planned	Airborne survey completed, plan to drill fall '07	Ground exploration underway, results received
Mosquito Gulch	Uranium	Northwest Territories	---	Acquired Jan 2007, drilling program planned	Permitting for drilling underway
Whiskey Gap	Uranium	S. Alberta	" "	Drilling planned	Drilling underway
Del Bonita	Uranium	S. Alberta	Drilling intersected radioactivity	No work planned	No work planned
Ranger Lake	Uranium	Ontario	--	--	Acquired 5/07, airborne geophysical survey planned for Q1-2008

**Louise Lake Copper-Moly-Gold-Silver Property**

**Property Overview:** The Louise Lake property is the company's flagship property. It has a very large tonnage, low grade resource. Since our last update, the company has announced an upgraded NI 43-101 compliant resource estimate that moved a portion of the resource into the indicated category.

**Ownership:** The company controls 100% interest in the Louise Lake property.

**Accessibility and Infrastructure:** The Louise Lake property is located 35 kilometers away from Smithers, BC, a regional center for supplies and labor. The accessibility and infrastructure are good, which would be a benefit for a future mine.

The company announced an important agreement in February 2007 with Gitxsan First Nations, the Gitsegukla, DUUBISXW House Group, represented by Bernadette McLean. This Resource Partnership Agreement grants NA Gem access to the Louise Lake property, the traditional territory of the Gitxsan, as well as any other properties the Gitsegukla have claim to. We believe this is a significant benefit to the company's work at Louise Lake, as First Nations land rights have hindered other exploration projects in British Columbia. However, this agreement must be revisited upon a production decision.

**Geology and Mineralization:** The deposit outlined thus far in the Main Zone is believed to be the upper level of a copper porphyry system, due to its unique mineral assemblage composed mainly of chalcopyrite and enargite. The company believes that they may have intersected a lower portion of the porphyry system with higher copper and gold grades with Hole LL-07-18B.

**Metallurgy:** The company contracted G & T Metallurgical Services to complete a preliminary metallurgical study on a 160 kg bulk sample of Louise Lake ore. The results indicated a copper concentrate could be produced with potentially payable levels of silver, molybdenum, and gold as well. Recoveries were 85% copper, 54% gold, 44% silver, and 80% molybdenum. The molybdenum recovery is especially promising, as molybdenum recoveries are often low in copper porphyry deposits.

The drawback to this metallurgical work was the high arsenic content. The concentrate produced contained 11.4% arsenic, which is a poisonous element and carries a penalty added to the cost of processing. The company has established alternative processing options using hydrometallurgy that convert arsenic to inert compounds. Hydrometallurgy uses aqueous solutions containing chemical solutions or bacteria to recover metals from ore. **The company considers the CESL system to be their best option at this time.** This process was developed by Cominco Engineering Services (a subsidiary of Teck Cominco) as an environmentally friendly alternative to smelting, which produces sulfur dioxide gas (a greenhouse gas) and potentially toxic effluents. This process is appealing because it includes on-site processing, which eliminates many costs and can make marginal deposits economic. Additionally, the process converts arsenic to ferric arsenate, a stable compound. This process has a number of advantages: its only emissions are steam, it can process a variety of grades and mineral types, and it is cost effective.

**Current Status:** An internal scoping study is underway by SRK Consulting (Canada) Inc. This report will determine a preliminary assessment of the economics of the project, including infrastructure developments. A metallurgical study following up on the hydrometallurgical processing options for Louise Lake is also in progress.

We expect future drilling to focus on expanding the deposit down dip and at depth, where increasing grades have been intersected. The company has applied for permitting for the 2008 drilling program. This program will consist of two phases, the first targeting sub “Terminator Zone” mineralization and the down dip expansion of the Main Zone, and the second will focus on infill drilling to upgrade the resource to measured and indicated categories.

**Resource Estimate:** The company announced an updated resource estimate on the Louise Lake property in October 2007. The 2007 estimate uses a copper cut-off value of 0.15%, rather than the copper equivalent cutoff value of 0.25% used in the 2006 estimate. This deposit is very low grade. The majority of the resource is in the inferred category, and the company’s 2007 drilling program included seven infill drilling holes to upgrade part of the inferred resource to the indicated category. The company believes that they have defined the deposit along strike, but that it remains open down dip to the north. This resource estimate does not include the drill data for the 200 meter step out holes, which have great potential to expand the resource. The company is focusing on the northeastern area, where a new geologic interpretation of the LL-07-18B hole suggests that drilling is intersecting the deeper porphyry body. This hole has higher copper and gold grades, more in line with the grades found in producing copper porphyry mines. This resource estimate did not include several step out holes targeting the “true porphyry” where the company is focusing future exploration efforts. The 2006 and 2007 resource estimates are compared below.

Resource	Tonnage	Grades	Contained Metal
<b>Indicated</b>	26,000,000	0.231% copper	132 million lbs
<b>(2007)</b>	26,000,000	0.008% molybdenum	4.64 million lbs moly
	26,000,000	0.22 g/t gold	184,000 ounces gold
	26,000,000	1.01 g/t silver	840,000 ounces silver
<b>Indicated</b>	6,000,000	0.214% copper	28.3 million lbs copper
<b>(2006)</b>	6,000,000	0.006% molybdenum	780,000 lbs molybdenum
	6,000,000	0.20 g/t gold	39,000 ounces gold
	6,000,000	0.98 g/t silver	189,000 ounces silver
<b>Inferred</b>	125,000,000	0.239% copper	659 million lbs copper
<b>(2007)</b>	125,000,000	0.009% molybdenum	24.51 million lbs moly
	125,000,000	0.23 g/t gold	0.94 million ounces gold
	125,000,000	0.99 g/t silver	3.96 million ounces silver
<b>Inferred</b>	141,000,000	0.234% copper	727.6 million lbs copper
<b>(2006)</b>	141,000,000	0.009% molybdenum	27.9 million lbs
	141,000,000	0.23 g/t gold	1.04 million ounces gold
	141,000,000	0.94 g/t silver	4.26 million ounces silver

**Comparables:** The low grades of the Louise Lake deposit are one project risk, although the

company has indicated that with the use of the CESL system, all four metals have the potential to be extracted profitably. We believe that through careful engineering and design, the Louise Lake property may be able to produce successfully and profitably. Other copper porphyry deposits of a similar grade are presently producing and have also done so in the past. Below, we provide a comparables chart summarizing other copper porphyry deposits in British Columbia.

<b>Louise Lake (North American Gem)</b>	Resource Delineation	<b>Indicated Resource:</b> 26 million tonnes grading 0.231% copper, 0.008% moly, 0.22 g/t gold, and 1.01 g/t silver
<b>Highland Valley (Teck Cominco 97.5%)</b>	Current Producer (1986-Present)	<b>Reserves:</b> 271 million tonnes grading 0.43% copper and 0.03% moly
<b>Huckleberry Mine (Imperial Metals 50%)</b>	Current Producer (1997-Present)	<b>Probable Reserves:</b> 21.9 million tonnes ore grading 0.40% copper
<b>Mount Polley (Imperial Metals 100%)</b>	Current Producer (2005-Present)	<b>Reserves:</b> 59.9 million tonnes of 0.36% copper, 0.27 g/t gold and 0.73 g/t silver
<b>Kemess South Mine (Northgate Minerals 100%)</b>	Current Producer (1998 – Present)	<b>Reserves:</b> 67 million tonnes grading 0.19% copper and 0.53 g/t gold
<b>Brenda Mine (Noranda)</b>	Past Producer (1970-1990)	<b>Production:</b> 182 million tonnes of ore grading 0.183% copper and 0.049% molybdenum
<b>Red Chris (Imperial Metals 100%)</b>	Development dependent on power to northwest BC	<b>Reserves:</b> 276 million tonnes grading 0.349% copper and 0.266 g/t gold
<b>Schaft Creek (Copper Fox Metals 93.4%)</b>	Preliminary Economic Assessment Underway	<b>Measured and Indicated Resources:</b> 1,393 million tonnes averaging 0.25% copper, 0.18 g/t gold, 0.019% molybdenum and 1.55 g/t silver

**Potential:** The accessibility and infrastructure are favorable for the development of Louise Lake. However, we believe the low grades may make the deposit less attractive from a development point of view. In addition, the high capital cost associated with the project would heavily dilute NAG. The deposit remains open at depth, and we believe further delineation and resource expansion could attract a partner for the project to bring it into production. The 2008 drilling program is crucial from a development point of view, and the results of the ongoing scoping study will help determine whether the project warrants further exploration and development work.

**Bonny Fault  
multielement  
property**

**Property Overview:** The 64,128 hectare (158,464 acre) Bonny Fault property has a unique geologic setting with potential for a variety of ore deposits and a multielement focus. Surface sampling indicates the presence of uranium and molybdenum, and airborne surveys indicate sulfide mineralization. The results of the airborne survey generated 275 targets for further exploration. 10% of these targets are considered a priority, as they are located along a structural trend associated with uranium mineralization in the region.

**Ownership:** The property is 100% owned by North American Gem.

**Historic Exploration/Production:** The company has continued to compile historic exploration results and geologic information to guide exploration. The Bonny Fault property has been sporadically explored since the mid 1950s. Numerous uranium and radioactive outcrops have been found. In 1969, Rapid River Resources Ltd reported 300 radiometric “highs” along two zones approximately 1.8 kilometers long and 300 meters wide. However, little follow-up was ever completed on any of this historic exploration. This is unusual for an interesting uranium property, and may be influenced by the remote location of the project.

**Geology and Mineralization:** The Bonny Fault property covers granites, metasedimentary, and metavolcanic rocks that comprise the basement of the western Athabasca Basin. Major fault systems, including the Bonny Fault, seem to be conduits for uranium mineralization and are the company’s priority for exploration at this time. These near surface shear zones are known to host economic uranium deposits in the Uranium City area of northwestern Saskatchewan, where Eldorado operated for many years. The advantage of this type of mineralization is that it is covered with little to no overburden, so deposits are at or near surface.

The company has identified potential for four styles of mineralization at Bonny Fault:

- Basement hosted Athabasca type mineralization (inferred from airborne surveys)
- Uranium-molybdenum zones associated with shear zones at contacts between granite and metasediments
- Gold, silver, and nickel zones along shear zones at contacts between metasediments and metavolcanics.
- IOCG polymetallic mineralization (discussed in previous update)

**Current Status:** The company has completed their 2007 summer exploration program, which did not include drilling. The focus of this program was the 42 priority targets identified through the 2006 airborne radiometric survey, as well as zones of high grade near surface uranium mineralization identified in historic sampling programs. The company took 130 rock samples, 12 of which assayed higher than 0.1%  $U_3O_8$ . The best samples, including 2.28 %  $U_3O_8$  and 1.10 %  $U_3O_8$  were taken at Bayonet Lake, a high priority target. Anomalous to significant uranium mineralization was confirmed at Cherry Lake, Twin Lakes, Small Lake, Big Bend, Pythagoras Lake, Spider Lake, Holmes Lake and Carrot Lake. The results of the 2007 program generally confirm historic exploration.

The company is planning an additional prospecting program in 2008 which will test a

number of remaining high priority targets. They are planning a drilling program for the fall of 2008.

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

### *Charles Lake*

**Property Overview:** The 46,000 acre Charles Lake property is the company's most recent acquisition, located directly adjacent to the Bonny Fault property.

**Ownership:** North American Gem has entered into an option agreement to acquire 100% interest in the property. They are paying \$105,000 and issuing 450,000 shares to the underlying owner over two years. This agreement is subject to a 2% NSR royalty for any metals and a 2% gross overriding royalty (GORR) in the case of gemstones or other minerals.

**Historic Exploration/Production:** Radioactive uranium, thorium, and rare earth element showings have been documented along shear and fault zones around Charles Lake.

**Geology and Mineralization:** Historic exploration has observed a strong correlation between mineralization and shear/fault zones, especially along the Charles Lake Shear zone. The majority of uranium, thorium, and rare earth element showings are hosted by pegmatite units. The Charles Lake Shear zone strikes north-south paralleling major fault features of the region.

**Current Status:** Work at Charles Lake is continuing in conjunction with exploration at Bonny Fault.

**Resource Estimates:** This property is early stage and does not have any historic or NI 43-101 complaint resource estimates at this time.

### *Western Basin*

**Property Overview:** The 92,000 acre Western Basin property, although in Alberta, is located on the western extension of the Athabasca Basin and is believed to host Athabasca sandstones.

**Historic Exploration/Production:** In the region, Cameco's (TSX: CCO) Maurice Bay uranium deposit is located approximately 5 kilometers from the property, directly over the border in Saskatchewan. Maurice Bay has a NI 43-101 compliant resource of 600 tonnes of uranium at an average grade of 0.5% U<sub>3</sub>O<sub>8</sub>.

**Geology and Mineralization:** Uranium mineralization in the Athabasca Basin is associated with the basement-sandstone unconformity and associated structural zones. Thus, the depth to the basement-sandstone unconformity is an important parameter to guide exploration efforts. The Alberta Geologic Survey believes that depth to the basement at the Western Basin is between 10-95 meters deep.

Increasingly, geologists have recognized the role of structural zones in uranium

mineralization. Uranium has been found associated with faulting and the boundaries of geologic provinces. The company has identified two NW-SE trending fault zones on the Western Basin property that are believed to be the host of uranium mineralization at Maurice Bay to the southeast.

**Current Status:** The company completed an airborne geophysics survey in January 2007. A ground exploration program was completed on the property in the summer of 2007 that indicated anomalous levels of uranium. The company has a number of targets that remain to be tested, and work will continue in the first half of 2008. The company had proposed a fall 2007 drilling program, but it has not been announced at this time.

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

### ***Mosquito Gulch***

**Property Overview:** The 100% owned Mosquito Gulch property consists of one mineral claim totaling 2,500 acres and is located in the Northwest Territories, 300 kilometers southeast of Yellowknife. It is of interest due to mineralized U<sub>3</sub>O<sub>8</sub> surface samples taken from the main mineralized zone.

**Current Status:** The company announced in June 2007 that they had begun the permitting process to drill at Mosquito Gulch. The Northwest Territories is a notoriously difficult jurisdiction to obtain permitting in. Management estimated permitting in the first half of 2008. The company was hoping to drill ten holes in the fall of 2007.

### ***Whiskey Gap***

**Property Overview:** The Whiskey Gap property is a very large project directly adjacent to the company's Del Bonita property.

**Ownership:** The company has the option to earn 70% interest in this project by spending \$1.25 million over 3 years (2005-2008). They can earn an additional 10% by taking the project to feasibility. International Ranger Corp. (OTC:IRNG) holds the remaining interest.

**Current Status:** A recently completed water sampling program outlined a number of anomalous areas where water was enriched in uranium, molybdenum, and heavy metals. A 2,000 meter eight hole drilling program commenced December 12, 2007.

### ***Ranger Lake***

**Property Overview:** The 19,280 acre Ranger Lake property is located 60 kilometers north of the former Elliott Lake uranium mines and is of interest to the company due to historic exploration that identified strong geochemical and geophysical uranium anomalies.

**Ownership:** The company entered into a purchase agreement for 100% interest. The terms of the agreement are as follows: cash payments of \$210,000 and issuance of 200,000 shares over four years. This property is subject to a 2% NSR royalty, which the company can reduce to 1% by paying \$1 million.

**Historic Exploration/Production:** A National Geochemical Reconnaissance Program conducted by the Canadian government in 1978 identified favorable radiometric anomalies

and anomalous lake sediment samples. This work was completed prior to NI 43-101 implementation and the company has not released the results. The Elliot Lake uranium mines have been revived by Pele Mountain Resources (TSXV: GEM), who have identified a large tonnage, low grade resource.

**Accessibility and Infrastructure:** The company has reported that road access is excellent, as the property is just north of Highway 556 and west of Highway 129 in Ontario.

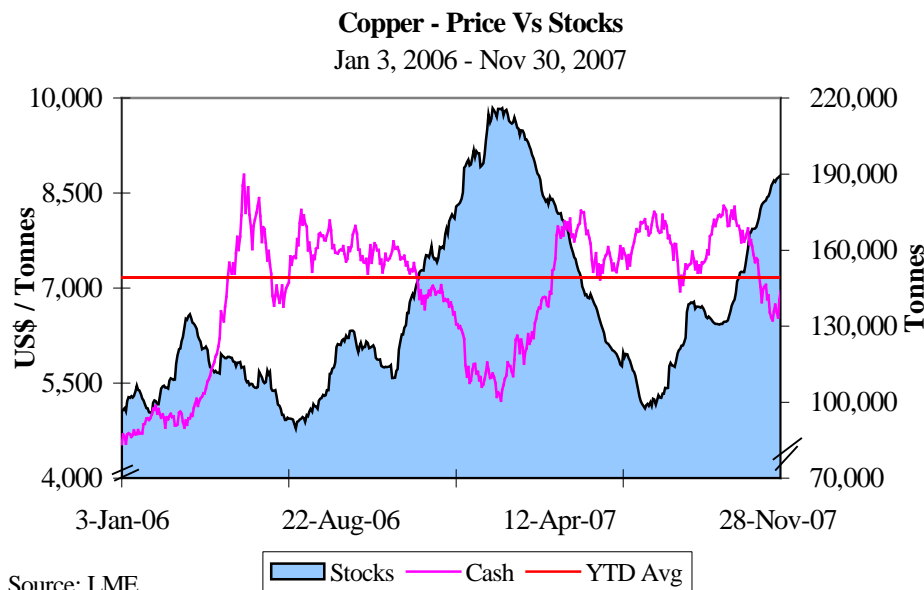
**Geology and Mineralization:** Little is known about the nature of uranium mineralization, if any, on the property at this time.

**Current Status:** The company has not announced any results from exploration at this time.

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

### **Outlook on Copper**

As of December 13, 2007, copper was trading at US\$2.91/lb, which reflected a YOY drop of 5.31%. As shown in the chart below, current prices are well below the YTD average price of US\$3.25/lb.



The recent drop in prices was due to a rapid increase in inventory levels. As of December 13, 2007, LME stocks were 190,350 tonnes, which reflects an increase of 98% since the beginning of 2006.

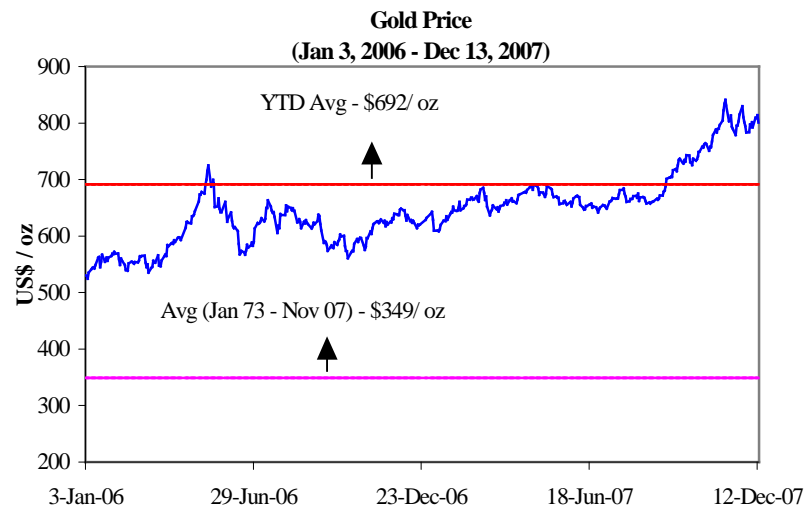
We have maintained our short-term and long-term outlook on copper prices. We believe that strong copper demand from China and India, slightly offset by lower demand from the U.S., will support consumption growth and a decline in the production surplus in 2007.

In 2006, China and India, accounted for 25% of global copper consumption, while the U.S. accounted for 13%. Demand in the U.S. is expected to soften due to a slowdown in the U.S. housing industry, which is not expected to improve before the end of 2008. According to the Copper Development Association, 40% of copper's application is in the construction industry. This implies that the U.S. housing industry accounts for less than 5.2% of global consumption. Therefore, we believe, lower demand in the U.S., due to a slowdown in the U.S. housing industry, will only slightly offset global demand growth. Also, the recent rate cuts by the U.S. Federal Reserve to tackle the ongoing credit crunch problems, we believe, might help sustain U.S. economic growth, and demand for copper (*The U.S Federal Reserve recently cut rates by 100 basis points to 4.25% in three meetings, the first cut in over four years.*)

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 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 copper. The average forecasts for copper prices are US\$3.20/lb in 2007, and US\$2.80/lb in 2008, which are significantly higher than the historical average price of copper. We have lowered our long-term price forecast from US\$1.90/lb to US\$1.75/lb.

### **Outlook on Gold**

The chart below shows gold prices since January 2006. As of December 13, 2007, gold was trading at US\$801/oz, which reflects a YOY increase of 27%.



Source: KITCO

Although gold prices have risen considerably in the past few months, and are currently trading slightly above US\$800/oz, 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.

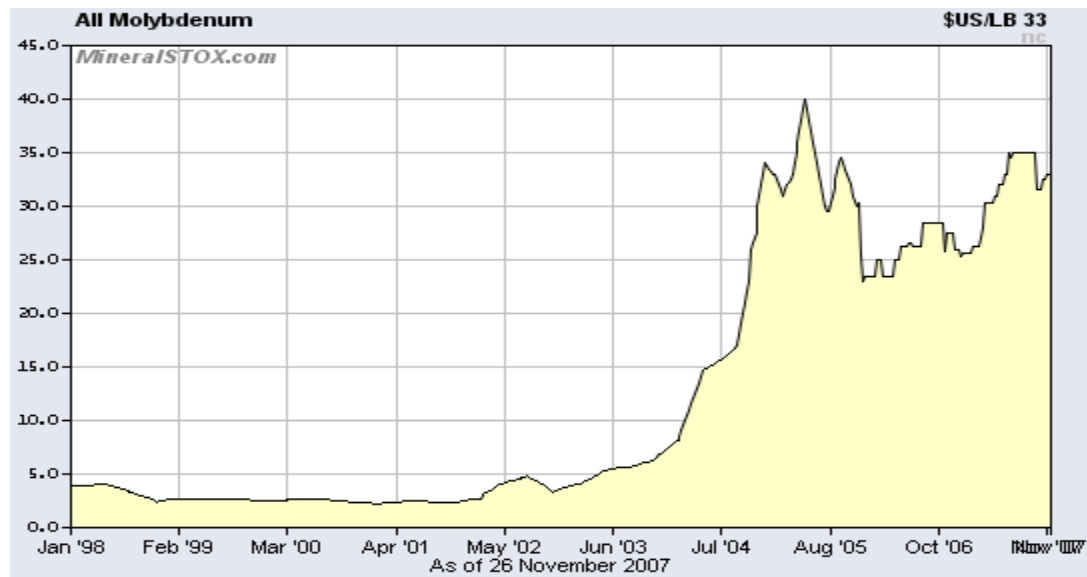
The U.S. housing industry is not expected to recover before the end of 2008, and recently, the U.S. economy reported job losses for the first time in four years. Both these factors further signal a slowdown in the U.S. economy. Also, the recent interest rate cuts by the U.S. Federal Reserve (from 5.25% to 4.25%), as a move to tackle the ongoing credit crunch problems and the softening U.S. housing industry, further 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 at its 2007 highs, and prices are expected to stay above \$60.00/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. Although we do not expect prices to move up as fast as they did in the past few months, 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. Based on our continued positive outlook on long-term gold prices, we now use a long-term gold price of US\$600/oz (instead of US\$550/oz) in our revised valuation models.

### ***Outlook on Molybdenum***

The chart below shows molybdenum prices since January 1998.



As of December 13, 2007, molybdenum was trading at US\$33/lb, compared to US\$24.6/lb at the end of 2006. Although we expect prices to gradually decline throughout our forecast period, we believe they will stay higher than their historic low of US\$2.33/lb (during 2000 – 2006), based on the following reasons.

- Supply/Demand balance is expected to remain tight for the rest of the decade.
- Strong demand from China, the global market for stainless steel, and the oil sector will be the main drivers of molybdenum demand in the long-term. Increasing investment demand is also a positive sign for long-term demand.
- On the supply side, not many molybdenum projects are expected to be put into production in 2007 and 2008. Also, new molybdenum mines have longer lead times.
- Supply from China is expected to drop as the Chinese government intends to restrict exports of molybdenum products in the future.
- It is estimated that supply will also be affected by tight roaster capacity.

We have lowered our long-term molybdenum price forecast from US\$12/lb to US\$10/lb.

### **Outlook on Uranium**

Uranium prices have been exceptionally volatile and have dropped by 45% in the past few months, from a record high of US\$136/lb to US\$75/lb. However, uranium prices have picked up since then, and are currently trading at US\$93/lb, which reflects an increase of 148% since the end of January 2006. The table below shows uranium prices since 1970. Note the steep rise in prices starting mid 2004.



We have maintained our long-term outlook on Uranium prices based on the following factors.

- Nuclear power accounts for about 16% of the world's electricity generation. Nuclear power generation does not emit greenhouse gas, and therefore, it is considered as one of the cleanest methods of producing electricity. We believe increasing concerns about global warming will lead to increased demand for nuclear power plants going forward.
- According to the World Nuclear Association (WNA), global nuclear generating capacity is expected to grow at a compounded annual growth rate (CAGR) of 1.4% through 2030.
- Demand for nuclear energy is expected to grow across the world, as several major nations, including UK, Russia, China, India and South Africa, are planning to increase their nuclear power consumption. According to Cameco Corporation (NYSE: CCJ), the world's largest uranium producer, there are currently 434 operating nuclear reactors in the world. About 100 new reactors are either under construction or planned for completion within the next 10 years. China (24), India (15), Russia (9), Korea (8), USA (6), and Japan (5), combined, will account for 67% of the new nuclear reactors.

Although we do not expect a sharp increase in nuclear consumption worldwide in the short-term, the increase in nuclear generating capacity suggests that demand for uranium will increase in the long-term. Global consumption of uranium is about 180 million pounds a year versus production of about 100 million pounds; the deficit is filled by stockpiles. Since stockpiles are not expected to last forever, uranium primary production has to increase significantly from current levels to keep up with demand in the long-term. Currently, the two major concerns regarding the supply of uranium are that it typically takes up to 10 years from discovery to put a uranium mine into production, and no major project has been put into production recently. Also, Russia is expected to decrease exports to support their domestic needs.

**Forecasts:** In the short-term, we believe that prices will be very sensitive to any development that could potentially affect supply. Although we do not expect prices to go higher from current levels in the short-term, we believe the supply-sensitive uranium market will keep the metal's prices high. Our long-term outlook on prices is positive, based on rising demand and the projected shortage in long-term supply.

## Financials

NAG recorded a net loss of \$0.51 million in the first nine months of FY2007 (ended September 2007), compared to a net loss of \$0.62 million in the comparable period in the previous year. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.24 million per month in the first nine months of FY2007, versus \$0.13 million per month in FY2006 (12 – month period). The table below shows a summary of the company's cash and liquidity position.

	2004	2005	2006	Q3 - 2007
Cash	121,103	449,461	1,027,810	698,292
Working Capital	44,977	417,558	1,040,915	650,820
LT Debt / Assets	-	-	-	-
Burn Rate (per month)	(20,529)	(88,854)	(130,286)	(236,059)
Cash from financing activities	361,370	1,394,607	2,141,776	1,795,013

Cash and working capital at the end of September 2007 were \$0.70 million and \$0.65 million, respectively, compared to \$1.03 million and \$1.04 million at the end of FY2006.

Subsequently, in October 2007, NAG completed a non-brokered private placement and raised \$0.83 million, by issuing 8.31 million shares (5.76 million were flow-through shares) at \$0.10 per share. Pursuant to the same financing, the company also issued 6.07 million share purchase warrants (exercise price of \$0.12 in the first year, and \$0.15 in the second year)

**Stock Options and Warrants:** At the end of September 2007, the company had 5.73 million stock options (weighted average exercise price - \$0.17) and 15.31 million warrants (weighted average exercise price - \$0.21) outstanding. All the outstanding warrants and options are currently 'out-of-the-money'.

**Conclusions:** Based on a burn rate of \$0.24 million per month and its current cash position, we believe the company has sufficient access to capital until March – April 2007.

### **Valuation**

We have continued to value the Louise Lake property using a real options valuation model, and the company's uranium properties using a comparables valuation model.

**Our revised valuation on the Louise Lake project dropped from \$90.77 million (\$1.47 per share) to \$55.83 million (\$0.78 per share).** A summary of our real options valuation model is shown below.

Louise Lake Property - Real Options Valuation					
Resource Category	Tonnes	Grade	Contained Metal	Price (US\$)	Value (C\$)
Indicated	26,000,000	0.23% Cu	132,000,000 lbs Cu	1.75	225,802,500
	26,000,000	0.008% Mo	4,640,000 lbs Mo	10	42,688,000
	26,000,000	0.22 g/t Au	184,000 oz Au	600	68,558,400
	26,000,000	1.01 g/t Ag	840,000 oz Ag	11.0	4,675,440
Inferred	125,000,000	0.24% Cu	659,000,000 lbs Cu	1.75	1,127,301,875
	125,000,000	0.009% Mo	24,510,000 lbs Mo	10.00	225,492,000
	125,000,000	0.23g/t Au	940,000 oz Au	600.00	350,244,000
	125,000,000	0.99 g/t Ag	3,960,000 oz Ag	11.00	22,041,360
<b>Recovery</b>					
Cu	85%				
Mo	80%				
Au	54%				
Ag	44%				
				Total Value	\$2,066,803,575
				Operating Costs	\$1,347,675,000
				<b>Net Value</b>	<b>\$719,128,575</b>
Inputs relating the underlying asset					
Estd. Mineral Resources (short tonnes)					151,000,000
Estd. Value of Minerals if extracted today					\$555,509,706
Annualized Standard Deviation of Mineral prices					30%
Capital Investment					\$700,000,000
Estd. Mine Life (years)					15
Riskfree Rate					4.26%
Output					
Stock Price	\$555,509,706			T. Bond rate	4.30%
Strike Price	\$700,000,000			Variance	0.087
Expiration (in years)	15			Annualized div yield	6.67%
d1 =	0.06			d2 =	-1.08
N(d1) =	0.52			N(d2) =	0.14
Value of Option	\$55,832,775				
No of outstanding shares	71,576,994				
<b>Value per share</b>	<b>\$0.78</b>				

Our valuation dropped primarily due to the following changes in our model.

- Lowered our long-term copper price forecasts from US\$1.90 per share to US\$1.75 per share, and molybdenum price forecasts from US\$12/lb to US\$10/lb. We raised our long-term gold and silver price forecasts to US\$600/oz (up from US\$550/oz) and US\$11/oz (up from US\$8.5/oz). However, the increase in long-term gold and silver price forecasts only slightly offset the drop in valuation due to lower copper price forecasts. About 56% of the drop in valuation was a result of the change in our long-term commodity price forecasts.
- Raised our capital cost estimate from \$500 million to \$700 million, to reflect the increase in capital cost estimates of comparable mines.
- Number of shares (diluted) increased from 62.53 million to 71.58 million.
- Delayed commencement of production by 1 year, from 2011 to 2012.

**Revised valuation on the uranium projects:** The share prices of most of the junior uranium exploration companies have dropped considerably, along with uranium prices, in the past few months. As a result, the average enterprise value to mineral assets ratio dropped from 10.5 to 2.7. Due to the drop in the average EV/mineral assets ratio, our revised valuation of

the company's uranium properties dropped from \$8.17 million (\$0.13 per share) to \$4.22 million (\$0.06 per share).

Company	SYM	Price	Shares	Enterprise Value	Mineral Assets	Ratio
1 Northern Continental Resources Inc.	TSXV: NCR	0.30	39,139,392	10,722,163	1,719,822	6.2
2 Pitchstone Exploration Ltd.	TSXV: PXP	2.50	29,935,585	66,205,774	11,450,346	5.8
3 Universal Uranium Ltd.	TSXV: UUL	0.43	38,891,221	13,827,469	10,004,853	1.4
4 Purepoint Uranium Group	TSXV: PTU	0.42	73,154,702	18,506,671	15,429,811	1.2
5 RPT Uranium Corp.	TSXV: RPT	0.25	116,788,073	10,302,236	10,991,884	0.9
6 Titan Uranium Incorporated	TSXV: TUE	0.87	52,837,849	28,740,599	69,421,799	0.4
					<b>Average</b>	<b>2.7</b>
North American Gem Inc. <sup>x</sup>	TSXV: NAG	0.10	71,576,994	6,100,526	1,585,683	-
				<b>Implied Stock Value (from the Uranium Properties)</b>		<b>\$0.06</b>

x - Mineral assets of only the Uranium properties

A summary of our revised valuation on NAG is shown below.

Valuation Summary	Value	VPS
Value of the Louise Lake Property	55,832,775	\$0.78
Value of the company's uranium properties	4,215,061	\$0.06
Working capital	1,057,174	\$0.01
Long-term debt	-	-
<b>Fair value</b>	<b>\$61,105,010</b>	<b>\$0.85</b>

Adding up the valuations on the Louise Lake property and the uranium properties gave us a fair value estimate on NAG of \$0.85 per share (down from our previous estimate of \$1.62 per share).

### Conclusions & Rating

The company continues to expand the Louise Lake property, and we believe the uranium properties, although early stage, have significant potential going forward. **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 \$1.60 per share to \$0.85 per share. The company's share price is currently at its 52-week low, and is about 88% lower than our fair value estimate. Therefore, we believe, it is a good opportunity for investors to invest in the company at current price levels.**

### Risks

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

- The company has only one property with 43-101 compliant resource estimates.
- Like any other exploration company, NAG does not have any operating mines and hence does not generate any revenues or positive cash flows.
- NAG's success is dependent on the management and development of its exploration projects.
- The success of drilling, expansion and increasing favorable resource estimates are very important factors for the company's future prospects.
- The value of the company depends heavily on commodity prices (mainly gold, copper molybdenum and uranium).
- The company is forced to raise capital frequently. Its capacity to raise cash in the stock market will depend on the value of its stock; the lower the stock price the less capital raised and/or more dilution.

**We continue to rate the shares Risk 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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