

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

Brian Tang, CFA
Analyst

Siddharth Rajeev, B.Tech, MBA
Analyst

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

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San Gold Corporation (TSX.V: SGR) – Development deep in Rice Lake Mine highlights similarities to Red Lake; Introducing EPS Estimates

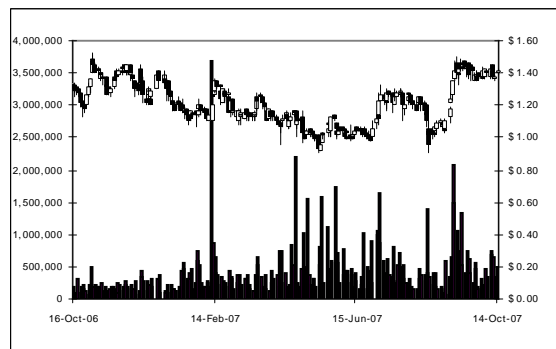
Sector/Industry: Mining

www.sangoldcorp.com

Market Data (as of October 15, 2007)

Current Price	C\$1.42
Fair Value	C\$1.95 (↑)
Rating*	BUY
Risk*	4 (Speculative)
52 Week Range	C\$0.91 – C\$1.52
Shares O/S	168,139,333
Market Cap	C\$228.67 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	5.76
YoY Return	5.97%
YoY TSXV	25.9%

*see back of report for rating and risk definitions



Investment Highlights

- San Gold has focused their development and exploration work on the high-grade (1-2 oz/ton gold) veins at depth in the Rice Lake Mine. We have calculated a conservative resource estimate of approximately 300,000 ounces in these veins.
- These new discoveries have shifted the focus of the company to developing and exploiting these high-grade zones at depth. This strategy and its results are similar to the operations of Goldcorp's Red Lake Mine, which has continued to find high-grade gold veins down dip.
- They are currently operating at 400-500 tpd, including material from the San Gold #1 Mine. The company plans to bring their mill to a full capacity of 1,250 tonnes/day by the end of 2008.
- We have raised our fair value estimate from \$1.60 per share to \$1.95 per share.

Risks

- The success of further development, exploration, and expansion is a significant factor in San Gold's success. Like other exploration and production companies, the value of the company depends heavily on gold and silver prices.

Key Financial Data (FYE - December 31)

(C\$)	2005	2006	2007E	2008E
Revenues	-	768,771	17,819,149	38,309,112
Net Income	(5,386,529)	(18,445,817)	(10,275,457)	12,371,895
EPS	(0.07)	(0.18)	(0.06)	0.07
Cash + Marketable Securities	3,610,766	13,048,010	19,653,211	18,715,064
Working Capital	(513,289)	12,309,769	1,832,962	10,886,883
Total Assets	36,945,480	114,333,003	165,264,134	166,496,587
Total Debt	2,525,443	16,237,846	14,701,554	318,704

San Gold Corp. initiated production in late August 2006 on their Rice Lake Gold Mine in Rice Lake, Manitoba. Their continued exploration program has added new resources and reserves from several mineralized zones on the property. San Gold is currently transitioning from mine development to production, and plans to reach full mill capacity by 2009.

Company Overview

San Gold Corporation has been producing gold from their Rice Lake and San Gold mines in Manitoba, Canada, since August 2006. They are currently operating at 400 tpd and management is quickly working to explore new resources and bring them into production to reach full capacity of 1,250 tpd by 2009. Since our last update, the company has begun selling gold and has finalized their gold sale policies.

Production Update

In our last update, we discussed the company’s transition from development mining to full-scale operations. The mill is currently operating at 400-500 tonnes per day, and has been since April 2007. We expect them to achieve 800 tpd by the end of 2007. Through the development of the Cartwright Zone, they plan to achieve full capacity of 1,250 tons/day by the end of 2008. It is still operating on a two weeks on, two weeks off schedule, and has been tested to full capacity with success.

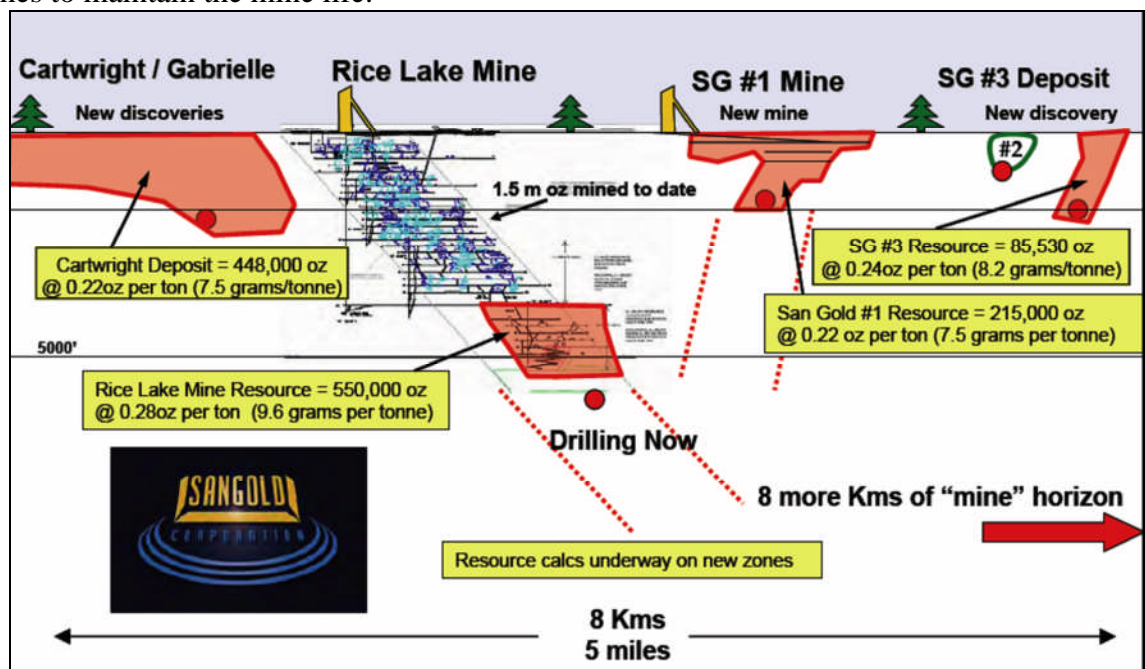
Future Mill Operations

Changes to Milling Capacity

San Gold is exploring changes to their crushing circuit that could upgrade their milling capacity in the future. According to management, the company is considering upgrading the mill to 2,000 tons/day in the future by adding a 3rd crusher. Such an upgrade is likely several years away, as additional ore will be required to meet the ore requirements for a large mill.

Exploration and Development

Previous operations used bulk mining methods to exploit high near surface mineralization of the Rice Lake District, which increased dilution and brought down mill grades. Thus, to realize profit, they required higher throughput. It was difficult to achieve higher throughput while exploiting only one mine. San Gold’s strategy of operating from multiple mines simultaneously was specifically designed to maintain a higher throughput while exploiting the high-grade resource at lower operating rates from each individual mine. Thus, the company has a strategy of aggressively expanding resources and continuing to identify new mineralized zones to maintain the mine life.

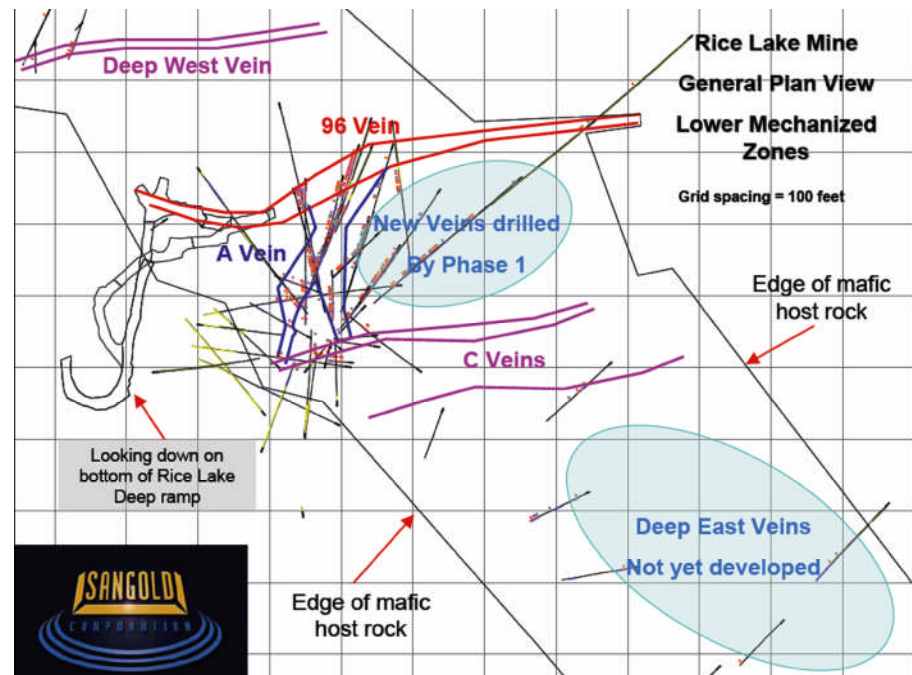


Source: San Gold Corporation

Rice Lake Mine Development and Exploration

San Gold's exploration and development in the past six months has focused on developing the numerous high-grade veins identified deep in the Rice Lake Mine. Many of these veins consistently grade between one and two ounces of gold per ton, and they have not been included in the most recent resource estimate. San Gold has been drilling below their lowest mine level at Rice Lake to identify resources to add to mine development and production. They have identified three large veins, known as 96, A, and C, as well as numerous smaller veins and new discoveries. They have identified mineralization to up to 500 feet below the 29th (4730 feet) level. The image below outlines the 96, A, and C veins in plan view. The company is deepening the Rice Lake shaft to extract ore using traditional shrinkage and mechanical cut and fill methods.

A new geologic model at the Rice Lake Mine has added great exploration potential. The company has identified mineralization in the footwall gabbro unit in the Rice Lake Mine, which was considered waste rock before. This opens up new resources that are readily accessible from current workings.



Source: San Gold Corporation

San Gold #1 Mine

San Gold is currently mining off San Gold #1 and expects to remain at low operating costs. Currently, they are mining at a shallow depth of less than 400 meters beneath the surface and are using a less expensive ramp to access ore underground. The San Gold #1 orebody has proven to be wider on average than expected (up to 10 meters) and is tabular and vertical lending itself to less expensive longhole mining methods.

Cartwright Zone

The Cartwright Zone, 1 km west of the Rice Lake deposit currently being mined, is San Gold's next target for production. Favorable drilling results there encouraged the company to

fast track feasibility on this zone to bring it into production in 2008. The technical report included a feasibility study and recommends beginning development on the Cartwright zone in early 2008. According to management, development of the decline will begin in early 2008.

San Gold #2 and #3 Zones

In our initial report, we highlighted further potential on San Gold's property beyond the San Gold #1, Rice Lake, and Cartwright zones. San Gold's most recent technical report included resource estimates from their San Gold #2 and #3 zones of 85,530 ounces indicated (35,320 ounces) and inferred (50,210 ounces). While San Gold does not plan to put these zones into production for several years, these resources add to the life and value of San Gold and their property at Rice Lake. They are also lower cost production targets, as they are expected to be shallow, ramp accessed operations like San Gold #1 and Cartwright. The most recent technical report recommends further drilling on these zones before considering development of an access ramp. San Gold is planning to drill these zones in the winter of 2007 to add to the resource.

Gabrielle Zone

The Gabrielle zone is located between the Cartwright and Rice Lake zones, and a decline in the Cartwright zone is expected to allow drilling and exploration of the Gabrielle zone. The resource estimate, expected by the end of 2007, will include further drilling from the Gabrielle Zone.

In our last update, we highlighted several **items for investors to monitor** as San Gold moved into production. In this section, we review those items that were unresolved at the date of the last update.

Investors should monitor

Actual Production Costs vs. Estimated Production Costs

Estimated Production Costs: \$88/ton (roughly \$328/ounce)

Actual Production Costs: \$75/ton

Discussion: In our last report, we stated that management believes the \$88/ton cost estimate is roughly accurate, if not slightly conservative. The company has a clearer picture of operating costs at this time, and believes they are \$75/ton. San Gold expects to keep production costs low for the first 10 years on its San Gold #1 and Cartwright zones, which will be shallow, ramp accessed operations.

Actual Recovery Rates

Estimated recovery rate: 93%

Actual recovery rate: 93%

Discussion: The recovery rate for development mining was lower, as gold was locked up in ball mills, leach tanks and beds in the early days of mill operations. This lock-up period has passed, and the company is now reporting recoveries of 93% as expected. San Gold plans to install an additional gravity circuit in the first half of 2007 to increase recovery to 96%.

**Exploration
and Production
Goals for 2007**

San Gold's goals for the next 12 months:

- The company hopes to produce 25,000 ounces of gold in 2007. Their previous estimate in the February 2007 update was 57,000 ounces of gold.
- To meet mine life upgrade goals, the company plans to operate 400 tpd from Rice Lake and 400 tpd from San Gold #1 by the end of the year.
- In order to expand mill production to full capacity, the company expects to develop the Cartwright gold deposit into a producing mine in 2008.

**Resource
Estimate**

District	Tons	Grade oz/ton Au (g/t Au)	Contained Gold (in ounces)
Rice Lake Mine			
Measured Resources	320,000	0.28 (9.6)	88,530
Indicated Resources	644,000	0.29 (9.9)	186,770
Inferred Resources	1,881,200	0.30 (10.3)	553,960
Proven Reserves*	389,600	0.26 (8.9)	98,970
Probable Reserves*	597,100	0.28 (9.6)	261,670
San Gold #1 Mine			
Measured Resources	69,000	0.15 (5.1)	10,280
Indicated Resources	214,200	0.24 (8.2)	52,150
Inferred Resources	936,500	0.22 (7.5)	206,900
Proven Reserves*	75,950	0.14 (4.8)	10,280
Probable Reserves*	180,150	0.26 (8.9)	47,100
Cartwright Zone			
Indicated Resources	136,200	0.22 (7.5)	29,830
Inferred Resources	1,761,200	0.22 (7.5)	418,770
Probable Reserves*	64,100	0.27 (9.3)	17,100
San Gold #2-#3 Zones			
Indicated Resources	173,100	0.20 (6.9)	35,320
Inferred Resources	195,600	0.26 (8.9)	50,210
Total Measured and Indicated	1,556,600	0.26 (8.9)	402,880
Total Inferred	4,774,500	0.25 (8.9)	1,200,010
Total Reserves	1,306,900	0.26 (8.9)	336,150

Note: Proven and Probable Reserves are that portion of the measured and indicated resource categories that are determined to be economically mineable based on a feasibility study.

We have estimated the following resource from the 96, A, and C Veins that have not been incorporated into the most recent resource estimate.

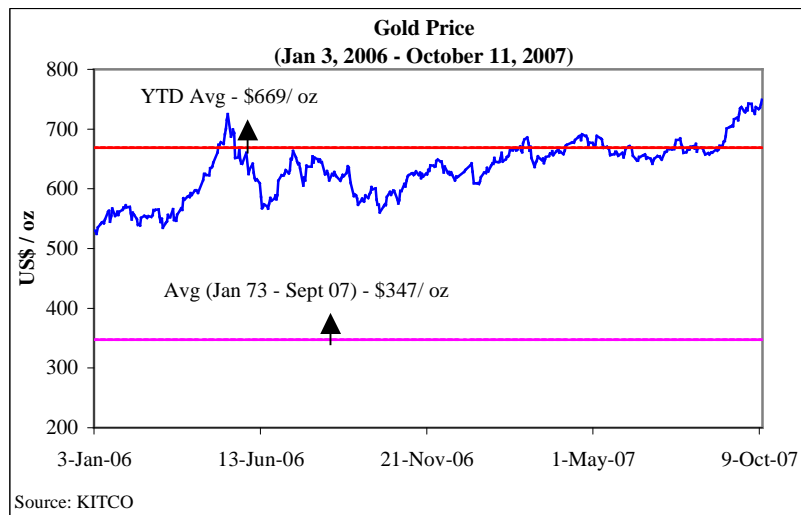
	Strike (ft)	Width (ft)	Depth (ft)	Volume (cubic feet)	Sp. Gv (cubic feet/ton)	Tonnage (tons)	Grade (oz/ton)	Resource (oz)
96 Vein	700	15	400	4200000	11.5	365217.39	0.6	219130
A Vein	400	10	400	1600000	11.5	139130.43	0.3	41739
C Vein	500	8	400	1600000	11.5	139130.43	0.3	41739
Total Resource								302609

Management

In June 2007, the company announced the appointment of Mr. Gestur Kristjansson, Vice President of San Gold, to the position of Chief Financial Officer. He replaced Rick Boulay, who remains with the company as a director. Mr. Kristjansson is a Chartered Accountant and has 12 years of experience in senior financial roles in various companies, including the position of CFO of a TSX Venture Exchange listed issuer. He has provided consulting services to a number of entities regarding financial, managerial and corporate strategy and implementation.

Outlook for Gold

Outlook on Gold: The chart below shows gold prices since January 2006. As of October 11, 2007, gold was trading at US\$749/oz, which reflects a YOY increase of 31%.



Although gold price has 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 around 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. On September 18, 2007, the U.S. Federal Reserve cut interest rates by 50 basis points (to 4.75%), 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 an inflationary scare 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 scares, 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\$748/oz in 2008.

Financials

Revenues: In the first six months of FY2007 (ended June 2007), the company reported revenues of \$1.83 million, from sales of 2,592 oz of gold (average gold price of \$706.9/oz). Based on sales of 25,000 oz of gold in FY2007, we expect the company to report \$17.82 million (average gold price of \$US670/oz) in revenues. Revenues are expected to significantly increase to \$38.31 million in FY2008 (average gold price of US\$750/oz), as annual production increases to 49,700 oz of gold.

SGR continued to spend significant amounts on maintaining and bringing its operations to higher levels of productive utilization. SGR spent \$12.02 million on operating, and general and administrative (G&A) costs in the first six months of FY2007. The company recorded 21% of its total exploration expenses (\$2.25 million of \$10.73 million) in the income statement. SGR recorded non-cash expenses, including depletion, amortization, deferred financing costs, accretion of convertible debentures and asset retirement obligation, and stock-based compensation, of \$3.41 million in the first six months of FY2007.

As of June 30, 2006, SGR had sold production royalties for \$98.38 million. All these proceeds are currently invested with a financial institution to secure SGR's obligations under the royalty agreement. In the first six months of FY2007, the company recorded royalty expenses of \$2.01 million, which were more than offset by interest revenues from the invested proceeds.

EPS Forecasts: In the first six months of FY2007, the company had a net loss of \$16.50 million (EPS: -\$0.11). Our EPS forecasts for FY2007, and FY2008, are a net loss of \$10.28 million (EPS: -\$0.06), and net income of \$12.37 million (EPS: \$0.07), respectively.

Cash Position and Liquidity: We estimate the company had a burn rate (cash spent on operating and investing activities) of \$3.38 million per month, compared to \$2.71 million per month in FY2006 (12 month period). The table below shows a summary of the company's cash and liquidity position.

	2005	2006	Q2-2007
Current Ratio	0.90	2.96	1.32
Working Capital	(513,289)	12,309,769	5,513,395
Debt/ Assets	6.8%	14.2%	8.8%
Total Debt	2,525,443	16,237,846	14,504,436
Burn Rate (per month)	451,376	2,712,878	3,378,969

At the end of Q2-2007, the company had debt of \$14.50 million (8.8% of assets) in term loans and convertible debentures. We expect debt levels to drop to \$0.32 million (0.2% of assets) by the end of FY2008, as the company repays the convertible debentures that are due in 2008.

Financings: In June 2007, SGR completed a non-brokered private placement, and raised \$21.71 million, by issuing 21.71 million units at a unit price of \$1.00. Each unit consists of one common share and one-half common share purchase warrant.

Conclusion: Based on our discussions with management, we expect the company to spend \$10 million (\$7 million on exploration and \$3 million on development) in the next 12 months. We believe the company is in a sound cash position. We expect cash flows from operation will be able fund exploration and development work in the future, thereby minimizing share dilution.

Valuation

We continue to value SGR based on four valuation techniques that we have used in our previous reports. The table below shows a summary of our revised valuation.

Valuation Summary		
	Previous	Revised
DCF	\$1.09	\$1.53
Real Options	\$2.39	\$1.92
Comparables	\$1.58	\$1.43
Cash Flow Multiple	\$1.42	\$2.87
Average	\$1.62	\$1.94

As shown in the table, SGR is fairly priced based on a comparables analysis, but undervalued based on our Discounted Cash Flow (DCF) model, real options model, and cash flow multiple analysis. Our average fair value estimate increased from \$1.62 per share to \$1.94 per share.

All the revised valuation models gave higher fair value estimates compared to our previous valuation models. However, the increases in real options and comparables valuation were not able to offset the effects of stock dilution, which explains why our real options and comparables valuation per share dropped. Our estimate of the number of shares (diluted) increased by 30% since our previous report, from 137.62 million to 178.24 million.

Our average fair value estimate increased because we made the following noteworthy changes in our valuation inputs.

1. **Increased resource estimate** to account for the resource that we calculated for the 96, A, and C Veins.
2. **Reduced operating costs** from \$76.25/ton to \$75/ton.
3. **Increased recovery rate** estimate beyond 2009 from 93% to 96%
4. **Higher commodity price forecast** – In our revised model, we have used an average gold price forecast of US\$670/oz in 2007 (previous estimate - \$700/oz), US\$748/oz in

2008 (previous estimate – US\$750/oz), US\$805/oz in 2009 (previous estimate – US\$550/oz), US\$790 in 2010 (previous estimate – US\$500/oz), and US\$600/oz for 2011+ (previous estimate – US\$500/oz).

A summary of all the four valuation models is shown below.

DCF Valuation - Summary	
Resource Estimate (in tons)	6,974,578
Wt. Avg. Grade (ozpt)	0.27
Contained Metal (in oz.)	1,905,499
Recovery	93% (2010+ : 96%)
Operating costs (C\$/oz)	\$75
Capital Costs	10,000,000
Mine Life (years)	13
Discount rate	10%
Net Asset Value	\$274,621,600
Working Capital	\$5,513,395
LT Debt	6,557,957
Net Fair Value	\$273,577,038
No. of Shares (diluted)	178,236,936
NAV per Share	\$1.53

Cash Flow Multiple Analysis	
Average Net Cash Flow / Year	\$39,387,563
Shares (diluted)	178,236,936
Net Annual Cash Flow Per Share	\$0.22
Average Mine Life (in years)	13
Value per Share	\$2.87

Real Options Valuation Model			
Estd. Resources (tons)	6,974,578		
Grade (oz/t)	0.27		
Recovered Gold (oz)	1,823,253		
Gold Price(US\$/oz)	\$700		
Operating costs (C\$/oz)	\$320		
Mine Life (years)	13		
Gold Price (Annualized Std Deviation)	18%		
Model Inputs			
Net value of the resources (Stock Price)	\$756,649,989	Risk-free rate	4.2%
Initial Capital Costs (Strike Price)	\$10,000,000	Volatility	3.2%
Mine Life (in years) (Expiration time)	13	Anzld. div. yield	6.0%
d1	6.6	d2	6.0
N(d1)	1.0	N(d2)	1.0
Value of the option	342,830,437		
Working Capital	5,513,395		
LT Debt	6,557,957		
Net Asset Value	341,785,875		
No. of outstanding shares	178,236,936		
Value per share	\$1.92		

	Relative Valuation					
	RIC	CRJ	LSG	SGR	ARZ	KGI
Share Price (C\$)	3.45	1.53	2.17	1.42	4.30	11.78
Shares (mm)	24.07	93.21	110.56	178.24	146.50	55.67
Market Cap (C\$ mm)	83.03	142.62	239.92	253.10	629.96	655.83
Cash (C\$ mm)	32.67	2.51	34.54	5.51	38.30	34.55
Debt (C\$ mm)	-	7.01	-	6.56	75.44	-
Enterprise Value (C\$ mm)	50.4	147.1	205.4	254.1	667.1	621.3
Resources (mm oz)	0.62	1.38	1.89	1.91	4.80	2.61
EV / Total Resources (C\$/oz)	\$80.7	\$106.3	\$108.8	\$133.4	\$139.0	\$238.5
Average	\$134.4					
Fair value per share (diluted)	\$1.43					

Conclusions & Rating

We believe that the company's many mineralized zones and aggressive exploration program is a significant benefit to the overall life and value of the company. We see great upside at depth in Rice Lake, from Cartwright, Gabrielle, San Gold #1, #2, #3, and the many other earlier stage prospects identified on the company's large land package. The company has been cautious and conservative in their development and production schedule. This is partly due to a labor shortage in the industry as a whole, and San Gold is experiencing delays due to lack of qualified people.

Based on our revised valuation models and review of the company's progress since our previous report, we have raised our fair value estimate from \$1.60 per share to \$1.95 per share. Our fair value estimate reflects an upside potential of 37% from current price levels.

Risks

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

- The company has continued to experience delays in expected production deadlines and have not yet reported a quarter of full-scale operations and cash flow.
- The success of further development, exploration, and expansion is a significant factor in San Gold's success.
- Like other exploration and production companies, the value of the company depends heavily on gold prices.

Consolidated Statement of Operations & Deficit
(in C\$)

	2005	2006	2007E	2008E
Revenues	-	768,771	17,819,149	38,309,112
Operating Costs	1,230,038	8,502,278	13,362,310	10,500,000
Gross Margin	(1,230,038)	(7,733,507)	4,456,839	27,809,112
Direct Exploration Expenses	1,483,376	7,496,599	3,495,485	3,750,000
General & Administrative Expenses	2,011,189	5,829,586	4,754,400	5,250,000
Royalty Expenses	-	578,176	4,020,848	3,365,539
Interest and Bank Charges	174,756	962,861	1,546,970	751,013
Deferred Financing Costs	102,806	294,567	877,604	-
Accretion - Convertible Debentures	45,400	305,218	537,690	-
Accretion - Asset Retirement Obligation	58,350	113,973	124,832	124,832
Depletion of Mineral Properties	-	445,647	479,294	1,011,903
Amortization - Property, Plant & Equipment	26,810	64,602	1,718,534	1,718,534
Share based Compensation	1,125,839	2,780,299	2,002,089	2,002,089
Net Income before other revenue	(6,258,564)	(26,605,035)	(15,100,906)	9,835,201
Indemnification Fee	-	64,907	38,428	-
Mineral Exploration Assistance Program	79,493	195,040	-	-
Project Management Fee	92,036	-	-	-
Interest Income	19,506	5,091,471	4,787,021	5,963,166
Future Income Tax Recovery	681,000	2,807,800	-	-
Income Tax	-	-	-	3,426,472
Net Income	(5,386,529)	(18,445,817)	(10,275,457)	12,371,895
Loss per common share	(0.07)	(0.18)	(0.06)	0.07

Consolidated Balance Sheet

(in C\$)	2005	2006	2007E	2008E
Current Assets				
Cash	3,544,872	12,210,678	9,723,309	8,785,162
Marketable Securities	65,894	837,332	9,929,902	9,929,902
Accounts Receivable	747,557	1,862,244	1,955,356	2,053,124
Supply Inventory		788,961	828,409	869,830
Gold in Process		2,719,891	2,855,886	2,998,680
Prepaid Expenses	137,181	180,525	189,551	199,029
Total Current Assets	4,495,504	18,599,631	25,482,413	24,835,726
Property, Plant & Equipment				
Property, Plant & Equipment	21,715,304	6,878,139	8,544,726	8,701,192
Mineral Properties		28,245,175	34,114,497	34,977,594
Collateral Deposits	450,000	450,000	450,000	450,000
Deferred Financing Costs	110,023	877,604	-	-
Mining Claims and Options	174,649	332,649	459,649	459,649
Promissory Notes	10,000,000	58,949,805	96,212,849	97,072,426
Total Assets	36,945,480	114,333,003	165,264,134	166,496,587
Current Liabilities				
Accounts Payable & Accrued Liabilities	2,281,332	4,893,516	5,138,192	5,395,101
Current portion of LT debt	106,416	172,950	340,572	318,704
Deferred Revenues		644,383	644,383	644,383
Convertible Debentures	2,071,822		14,160,765	-
Current portion of royalty obligations		579,013	3,365,539	7,590,655
Deferred Interest	549,223			
Total Current Liabilities	5,008,793	6,289,862	23,649,451	13,948,843
Other Liabilities				
Asset retirement obligation	1,108,333	1,222,306	1,347,138	1,471,970
Convertible Debentures		15,811,741	-	-
LT Debt	347,205	253,155	200,217	-
Royalty Obligation	10,000,000	58,868,163	92,847,310	89,481,771
Total Liabilities	16,464,331	82,445,227	118,044,116	104,902,584
Shareholders' Equity				
Share capital	32,839,089	65,466,412	89,072,023	89,072,023
Contributed Surplus	5,115,520	5,428,333	7,430,422	9,432,511
Deficit	(17,473,460)	(39,006,969)	(49,282,426)	(36,910,531)
Total S.E & Liabilities	36,945,480	114,333,003	165,264,134	166,496,587

Consolidate Statement of Cash Flows
(in C\$)

	2005	2006	2007E	2008E
Operating Activities				
Loss for the period	(5,386,529)	(18,445,817)	(10,275,457)	12,371,895
Items not affecting cash				
Accretion - convertible debentures	45,400	305,218	537,690	-
Accretion - asset retirement obligation	58,350	113,973	124,832	124,832
Amortization - deferred financing costs	102,806	294,567	877,604	-
Amortization - property, plant and equipment	26,810	64,602	1,718,534	1,718,534
Depletion	-	445,647	479,294	1,011,903
Share based compensation	1,125,839	2,780,299	2,002,089	2,002,089
Future Income Tax Recovery	(681,000)	(2,807,800)	-	-
Net change in non-cash working capital	(230,366)	(1,418,466)	(32,905)	(34,551)
	(4,938,690)	(18,667,777)	(4,568,320)	17,194,703
Investing Activities				
Purchase of Property, Plant and Equipment	(393,304)	(3,120,333)	(3,385,121)	(1,875,000)
Purchase of Marketable Securities	-	(771,438)	(9,092,570)	-
Investments in Mineral Properties	-	(10,716,426)	(6,348,616)	(1,875,000)
Investment in Promissory Note	-	(48,869,000)	-	-
Purchase of Mining Claims and Options	(30,000)	(50,000)	(127,000)	-
Amalgamation Costs	(54,512)	-	-	-
	(477,816)	(63,527,197)	(18,953,307)	(3,750,000)
Financing Activities				
Proceeds from shares issued and subscribed	4,889,865	26,899,815	23,605,611	-
Proceeds from royalty obligation	-	48,869,000	(497,371)	-
Proceeds from debentures	2,111,000	16,734,000	(2,188,666)	(14,160,765)
Convertible debt issue costs	(262,040)	(1,172,171)	-	-
Share issue costs	(203,382)	(442,348)	-	-
Proceeds from long-term debt	450,000	124,014	-	-
Repayment of LT debt	(59,953)	(151,530)	114,684	(222,085)
Collateral Deposit	(450,000)	-	-	-
	6,475,490	90,860,780	21,034,258	(14,382,850)
Change in Cash	1,058,984	8,665,806	(2,487,369)	(938,147)
Cash, beginning of the period	55,176	3,544,872	12,210,678	9,723,309
Cash, end of the period	1,114,160	12,210,678	9,723,309	8,785,162

Fundamental Research Corp. Equity Rating Scale:**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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