

### San Gold Corporation (TSXV: SGR) – Continued Exploration Success at Hinge #4 Zone

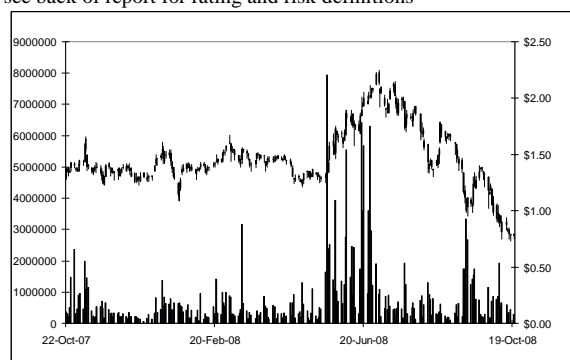
Sector/Industry: Mining/Gold

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

#### Market Data (as of October 23, 2008)

Current Price	C\$0.60
Fair Value	<b>C\$1.48 (↓)</b>
Rating*	<b>BUY</b>
Risk*	<b>4 (Speculative)</b>
52 Week Range	C\$0.57 – C\$2.25
Shares O/S	222.25 mm
Market Cap	C\$133.35 mm
Current Yield	N/A
P/E	N/A
P/B	2.00
YoY Return	-55.9%
YoY TSXV	-69.8%

\*see back of report for rating and risk definitions



#### Investment Highlights

- Exploration drilling in the Hinge #4 Zone area of the Rice Lake Mine encountered a new high grade gold bearing vein to the north and parallel to the previously discovered zones.
- Drilling from the 4980 Deep East exploration drift encountered mineralization identical to Hinge zones encountered at surface drilling.
- San Gold acquired a gold property in Timmins, Ontario (“Dalton Property”) located at the heart of the prolific Porcupine gold camp.
- They are currently operating at 500 tonnes/day. The company plans to bring their mill to its full capacity of 1,200 tonnes/day by the end of 2009.
- We maintain our BUY rating, but lower our fair value estimate to \$1.48 per share from \$1.82 per share, due to a delay in achieving the planned production rate, lower grade expectations during the transition stage, and higher operating costs.

#### 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 prices.

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

(C\$)	2006	2007	2008 (6 mo)	2008E	2009E
Revenues	768,771	4,422,817	3,394,100	9,698,006	65,913,341
Net Income	(18,445,817)	(29,936,722)	(23,732,879)	(38,945,355)	10,435,872
EPS	(0.18)	(0.19)	(0.11)	(0.16)	0.04
Cash + Marketable Securities	13,048,010	40,237,429	24,723,800	17,776,049	19,054,858
Working Capital	12,309,769	27,200,792	15,517,613	20,179,706	22,257,996
Total Assets	114,333,003	212,961,930	200,967,147	204,537,972	217,220,622
Total Debt	16,237,846	13,097,938	7,824,919	707,768	357,537

*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 commercial production, and plans to reach full mill capacity by 2009.*

**Production  
Update**

In our last update, we discussed the company's transition from development mining to full-scale operations, and expected the company to achieve 800 tpd by the end of Q2 2008. However, according to management, the mill is still operating at 500 tonnes per day as they transition from 400 tpd to 800 tpd. SGR expects to achieve 800 tpd by the end of 2008, and reach full capacity of 1,200 tons/day by the end of 2009, through the development of the Cartwright Zone and potential resource additions from the Hinge Zone.

**Exploration  
and  
Development**

In April, 2008, through exploratory surface drilling, the company discovered multiple mineralized zones known as the "Hinge Zone", 1.5 kilometers northeast of the Rice Lake Mine in the hanging wall unit. This area does not outcrop at surface, and is located in between Rice Lake and San Gold #1. In particular, the high-grade "**Hinge #4 Zone**" continues to grow with additional drilling. Drill hole GS-08-07, drilled in late May, and designed to test and extend the Hinge deposit to depth, did just that, with a high grade intersection of 48.4 g/tonne over 4.3 meters. The surface drilling results from the Hinge #4 Zone are outlined in Table 1:

**Table 1: Hinge Zone #4 Discovery Highlight Intercepts**

Hole Number	Width (m)	Au (g/tonne)	Depth (m)
<b>GS-08-07</b>	1.2	4.5	88
<b>GS-08-15</b>	4.4	7.5	105
<b>GS-08-17</b>	1.6	60.6	120
<b>GS-08-25</b>	9.4	28.1	146
<b>including</b>	3.0	79.0	-
<b>GS-08-29</b>	4.0	56.7	64
<b>GS-08-31</b>	5.4	21.2	80
<b>including</b>	1.6	47.6	-
<b>GS-08-33</b>	6.3	85.1	100
<b>GS-08-37</b>	16.6	16.8	383
<b>including</b>	<b>4.3</b>	<b>48.4</b>	-

Source: San Gold Corporation

To date, a total of at least 4 sub-parallel new veins have been discovered in the Hinge area, as well as numerous uncorrelated breccia zones within 100 to 300 meters of surface. The new zones are roughly parallel, dip to the north-west, and are made up of quartz and carbonate veins containing gold mineralization. The volcanic units which contain the new veins are located in a sequence of rocks which lie approximately 1,500 meters into the hanging wall, stratigraphically above, and geographically to the north of the mineralized mine unit of the Rice Lake Gold Mine. The new zones are located approximately 1.5 kilometers to the northeast of San Gold's operating Rice Lake mine and mill, and are fully accessible by road.

In addition, exploration drilling from the 30th level (4,500 feet depth) of the Rice Lake Gold Mine has identified new high grade zones highlighted by drill hole #07-12 intersecting 6.4 meters of 28 g/tonne in the footwall area, and drill hole #08-18 intersecting 7.2 meters of 21 g/tonne in a new eastern zone. A total of 27 intersections were encountered with an average length of 3.6 meters (12 ft) and an average grade of 19.3 g/tonne (0.56 oz/ton). This drilling program was designed to extend known mineralization eastward and test the unexplored footwall of the host gabbro mine unit.

Significant results released by the company on September 15, 2008, **indicate the intersection of mineralization from the 4980 Deep East exploration drift (5,000 ft depth) that is identical to the new Hinge zones currently being drill tested from the surface.** Drill hole #498-08-07 encountered 2.7 meters of 51.4 g/tonne (1.50 oz/ton) and hole #498-08-02 ended in mineralization and will be deepened with future drilling. This new area of gold interception is termed Hinge Deep. The possible implication of these results is a high grade vein structure extending from surface down to the same depth as the current Rice Lake Mine.

The most recent exploration results from the company's ongoing in-fill drilling program being conducted at Hinge Zone #4 from surface **continue to improve upon the potential of the discovery.** As shown in Table 2 below, drilling has encountered several very high-grade intercepts:

**Table 2: In-fill Drill Highlight Intercepts**

Hole #	From (m)	To (m)	Length (m)	Gold (g/t)
GS-08-76	122.2	124.2	2.0	<b>141.8</b>
GS-08-75	256.4	257.8	1.4	<b>59.6</b>
GS-08-74	166.4	172.4	<b>6.0</b>	<b>30.5</b>
Including	166.4	168.2	1.8	<b>103.0</b>
GS-08-71	308.2	310.5	2.3	8.9
GS-08-65	223.4	225.9	2.5	13.4

Source: San Gold Corporation

In summary, the company's exploration team has identified numerous drill targets which have identical structure, geology and also evidence of past workings. The new Hinge deposits will likely add significant ounces to San Gold's resource base as the company continues to develop them along strike and to depth. **This should allow the company to accelerate their production profile, adding to the revenues and value of SGR.** Based on our discussion with management, the company could reach the ore from the Hinge Zone by the end of 2008, due to its close proximity to surface.

Aside from continuing to develop and grow the Hinge discoveries, drilling projects within the mine include: exploration of an undeveloped target area from the upper D-shaft; exploration of open and undeveloped areas between the main Rice Lake orebodies and the Deep East zones, and; Phase 2 drilling on the downward extensions of the main Rice Lake orebodies.

***Near Future  
Exploration  
and Production  
Goals***

**San Gold's goals for the next 12 months:**

- The company hopes to announce an updated NI 43-101 compliant resource estimate
- The company hopes to produce 30,000 ounces of gold in 2008
- In order to expand mill production to full capacity, the company expects to develop the Cartwright gold deposit into a producing mine in 2008 and 2009.

**New  
Acquisition:  
“Dalton  
Property”**

**Property Overview:** The Dalton property, covering approximately 375 hectares, is located in the Mountjoy and Ogden townships, adjacent to the southwest boundary of the City of Timmins, Ontario. The landholdings are adjacent to claims held by Goldcorp Inc. (NYSE: GG; TSX: G) that were formerly part of the Placer-Kinross Porcupine Joint Venture. The Dalton Property is also situated next to the Moneta Mine and close to the Hollinger, Schumaker and McIntyre Mines. Consequently, we believe the close spatial association to producing gold mines makes this property highly prospective for the discovery of further mineralization.

**Ownership:** San Gold retains 100% ownership of the property.

**Historic Exploration/Production:** This property has never been explored.

**Accessibility and Infrastructure:** The Dalton property is situated adjacent to the Moneta Mine, and very near the Hollinger, Schumaker and McIntyre Mines (as well as Timmins itself). Consequently, it is likely that most (if not all) of the infrastructure would be readily accessible and available to the Dalton Property if necessary. This includes: power, water, access, freight, ore processing equipment, and other associated production infrastructures.

**Geology and Mineralization:** The Dalton claims lie at the heart of the Porcupine gold camp in the Archean-age Abitibi greenstone belt that has a total historic gold production in excess of 62 million ounces. The deposits along the belt typically occur in vertically-extensive quartz-carbonate lode systems, and are typically hosted in volcanic and sedimentary units that have been metamorphosed to greenschist facies. The gold deposits have been found to occur in a corridor up to 10km wide parallel to the Porcupine Destor Fault Zone (PDFZ) that extends for a length of 200km. Within the Porcupine gold camp, the gold deposits generally occur within 5km of the PDFZ. The Dalton property lies between 1.5km and 3.5km north of the PDFZ.

The Dalton property contains two distinct rock packages, the younger Temiskaming Group consisting of conglomerates, turbidites, greywackes and slates that are in unconformable contact with the underlying Tisdale basic volcanic rocks, the latter being hosts to many of the gold deposits in the Porcupine gold camp. **We believe the favorable geological setting of the Dalton property, as well as its close proximity to mines and known deposits, make this project prospective for the discovery of mineralization.**

**Current Status:** San Gold is currently compiling geological information for an aggressive 2008 exploration program, the details of which have not been defined.

**Resource Estimate:** Due to the grassroots nature of this project, no resource estimate is available.

**Development Timeline:** Due to the grassroots nature of this project, no development timeline is in place. Nevertheless, exploration is intended on the property for 2008.

### **New Acquisitions in Timmins Area**

The company has recently acquired additional properties along the prolific Porcupine-Destor fault to the east, south and west of Timmins. The new properties are located in Ogden, Deloro, Shaw, Matheson, Bristol and Carscallen townships. With the previously acquired Dalton property, the company's Timmins area land holdings now covers a total 3,715 hectares consisting of 548 hectares of patented claims and 3,168 hectares of staked claims. The company can earn a 100% interest in all its new claims.

Particularly, the Big Marsh Property, located in Carscallen and Bristol Townships approximately 20kms west of Timmins along Highway 101, consists of two claim groups. The west Timmins area has been intensively explored and developed for gold production in history. The property lies across the Bristol Splay running off the main Porcupine-Destor regional fault, where target rocks have been tested by drilling in 1940 and known to contain gold values.

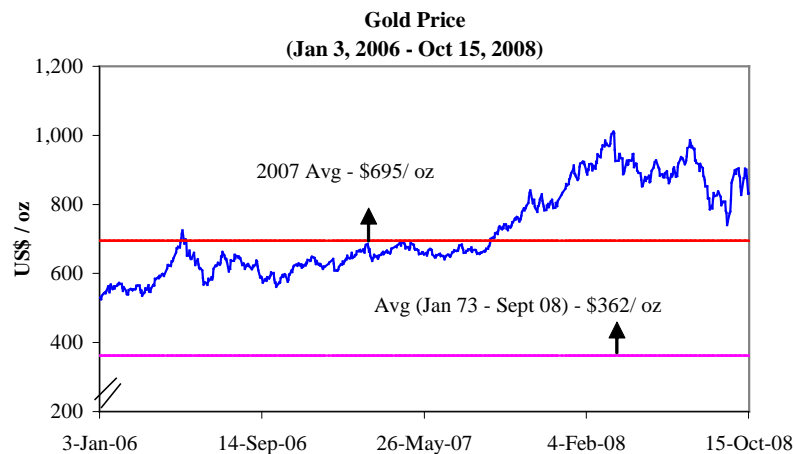
**Current Status:** The company has commenced exploration on the Big Marsh property, consisting of 50 line kms of linecutting and 30 line kms of VFL and IP geophysical surveys.

**Resource Estimate:** No resource estimate is currently available for these new properties.

### **Outlook on Gold**

**Supply and Demand:** Global demand for gold hit a record high of \$21.2 billion in Q2-2008, up 9% YOY. Global investment demand recorded the strongest growth reaching \$3.5 billion in Q2, up 29% YOY (U.S., China, Egypt and Vietnam were the major contributors). However, as a result of higher gold prices and increased volatility, total identifiable global demand in terms of tonnage dropped by 19% YOY, from 906 tonnes to 736 tonnes, as jewelry consumption which accounted for 69% of the total demand in Q2-2008, dropped 24% YOY.

The following chart shows gold prices since January 2006. Gold is currently trading at about US\$724/oz.

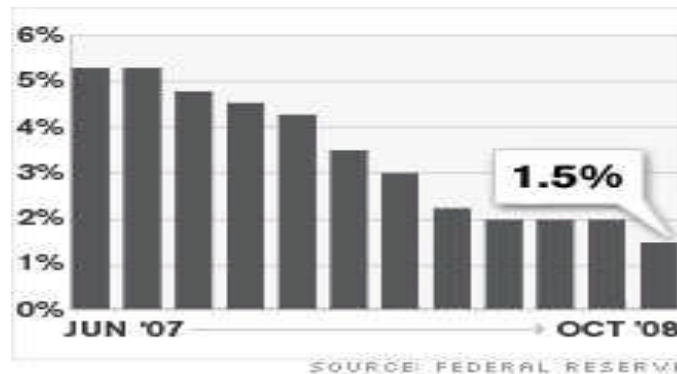


Going forward, we expect jewelry demand to stay soft for the next 6 to 12 months primarily because we expect prices to be volatile during the period due to the uncertainties in the direction of the global economy. We expect jewelry demand to increase as prices stabilize.

Although supply-demand fundamentals do not look very favorable for gold prices, we believe high gold production costs (although we expect costs to moderate due to the expected drop in labor, materials and fuel costs, we believe they will be well above historic averages) and the following macro economic conditions will support prices in the short-term.

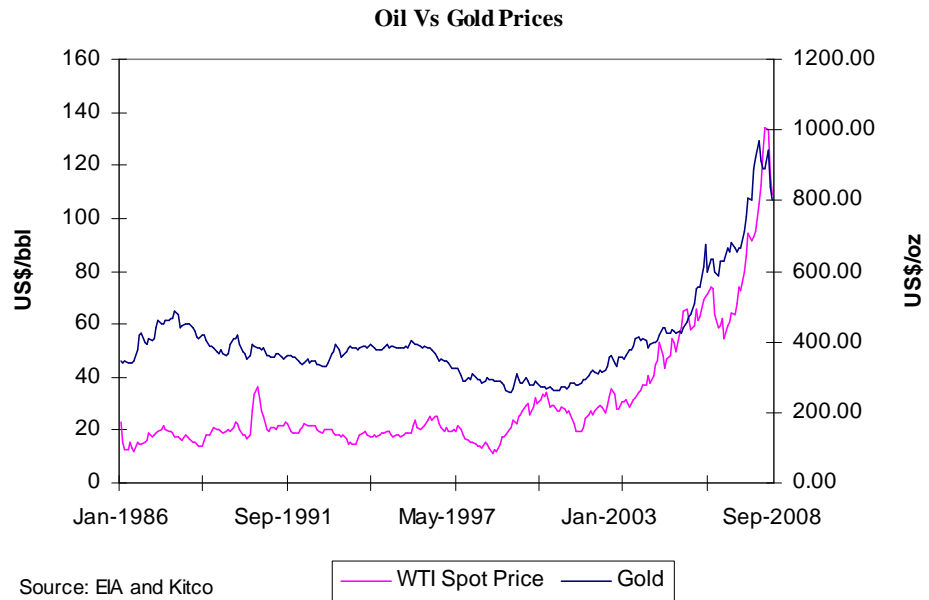
a) The slow down in the U.S. economy and relatively lower real interest rates, we believe, will put downward pressure on the US\$ with respect to other global currencies. According to the International Monetary Fund's (IMF) latest forecasts, the U.S. is projected to grow by 1.6% in 2008 and slow down to 0.1% in 2009. The ongoing financial crisis in the U.S. is intensifying and threatening the U.S. economy.

In addition, real interest rates in the U.S., as we had predicted, have turned negative as the Fed cut interest rates eight times since September 2007, from 5.25% to 1.50%.



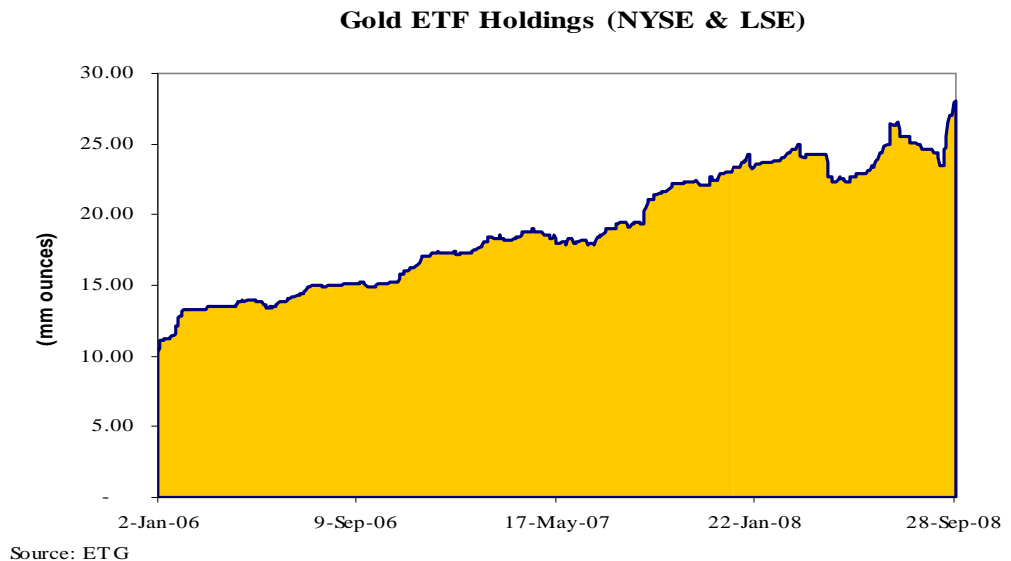
Negative real interest rates are very unfavorable for the US\$, as investors typically sell currency and look for alternative safe haven investments, like gold. Although inflation concerns have subdued due to the significant drop in commodity prices and slower economic growth projections, we expect negative real interest rates in the U.S. to persist for the next six months at least.

b) We have noticed a positive correlation between gold and oil prices in times of high oil prices. High oil prices create inflationary expectations among investors and lead them to drift towards gold. The following chart shows oil and gold prices since 1986. We noticed that the positive correlation between monthly log changes in oil and gold prices increased during January 2006 – January 2008, when oil prices were high, from the historic correlation (1986 – 2006) of 0.18 to 0.49; a significant jump.



Although oil prices have dropped significantly, to US\$73/bbl, prices are expected to stay above \$80/bbl through at least 2010, which we believe will have a positive impact on the demand for gold. However, it is important to note that if oil prices drop from current levels, we believe, they will put downward pressure on gold prices.

c) The drop in investment demand in early September (as shown in the following chart), we believe, partially explained the drop in gold prices in the first half of September.



We had predicted at that time that the drop in investment demand was temporary, and that we expect demand to increase as gold continues to hold its status as a ‘capital preservation asset’. Investment demand actually increased by 19% during September 10, 2008, and October 1,

2008, and so did gold prices. Gold prices moved up by 13% during the same period.

In summary, we continue to be bullish on gold prices in the near term based on a weakening U.S dollar, high oil prices and strong investment demand. The average consensus forecasts for gold prices are US\$885/oz in 2008, and US\$900/oz in 2009. We expect prices to moderate beyond that point as the US economy and global GDP growth improve. We have maintained our long-term gold price assumption (2012+) at US\$600/oz.

**Our models indicate that SGR's share price has been slightly sensitive to gold prices based on data since January 2006.** The beta of the change in SGR's share prices with respect to changes in gold prices of 0.95 was significant using daily historical data from January 2006 to present.

### *Financials*

**Revenues:** In FY2007 (ended December 2007), the company reported revenues of \$4.42 million, from sales of 5,625 oz of gold (average gold price of \$786.3/oz). In the first six months of FY2008, the company posted revenues of \$3.39 million from sales of 3,770 oz of gold (average price of \$900/oz).

The company was processing development ore at 354 tpd in the first six months of FY2008, which was markedly lower than our previous estimate (we were expecting the company to achieve 800 tpd by the end of Q2 2008). In addition, grades of the ore milled since the commencement of production at the Rice Lake project (including Rice Lake and SG#1 properties) have been lower than those estimated in the feasibility study. Grades in Q2-2008 averaged 0.104 oz/ton contained gold compared to an average grade of 0.27 oz/ton used in our valuation models. **Based on sales of 10,574 oz of gold in FY2008, we expect the company to report \$9.70 million in revenues, compared to our previous forecast of \$40.30 million. In FY2009, we forecast revenues of \$65.91 million based on sales of 63,684 oz of gold.**

**Operating Costs:** SGR incurred high operating costs of \$18.46 million (or \$191/ton milled) and \$17.27 million (or \$279/ton milled) in 2007 and the first half of 2008, respectively. At this time, we believe this is not indicative of true production costs because the company has not yet declared commercial production, and the ore milled to date was primarily from development materials with lower grade than what is estimated for the Rice Lake Mine (i.e., 0.104 oz/ gold in Q2 2008, versus 0.27 oz/gold based on NI 43-101 resource estimates). In addition, SGR is facing high competition for skilled labor. Particularly, the company is still lacking sufficient experienced shrinkage stope miners and experienced geologists.

**Based on our discussion with management, the company expects to achieve operating costs of approximately \$90/ton (about \$60/ton mining, \$14/ton milling and the balance for G&A and other expenses) by Q1 2009, when the ore mix becomes 70% stope and 30% development. Currently, the company is in transition stage and has achieved head grade to the mill of over 0.25 oz/ton in October 2008.**

**EPS Forecasts:** In FY2007, the company had a net loss of \$29.94 million (EPS: -\$0.19). The company posted a net loss of \$23.73 million in the first six months of FY2008 (EPS: -\$0.11). We believe the key for the company to reduce net losses and achieve profitability is to

transition production from its Rice Lake and SG#1 properties to the planned steady state. **Our EPS forecast is a net loss of \$38.95 million (EPS: -\$0.16) in FY2008, compared to net income of \$16.93 million (EPS: \$0.08) in our previous report. In 2009, we forecast net income of \$10.44 million (EPS: \$0.04).**

**Cash Flows, Capital Structure and Liquidity:** As at June 30, 2008, the company had \$24.72 million in cash and marketable securities. The table below shows a summary of the company's cash and liquidity position.

(in C\$)	2006	2007	Q2 2008
Current Ratio	2.96	2.13	1.85
Working Capital	12,309,769	27,200,792	15,517,613
Debt/ Assets	14.2%	6.2%	3.9%
Total Debt	16,237,846	13,097,938	7,824,919

The Debt/Asset ratio decreased to 3.9% at the end of Q2 2008, from 6.2% at the end of FY2008, due to the conversion of about \$6.1 million convertible debentures to shares. We have assumed that the remaining debenture in the amount of \$6.4 million would also be converted to shares, which indicates a Debt/Asset ratio of 0.39% at the end of FY2008 (assuming no additional debt financing during the rest of FY2008).

The company had negative cash flows of \$17.98 million from operations, and invested \$7.19 million in PPE and its mineral projects during the first six months of FY2008. The cash outflows were partly financed by the company's marketable securities in the amount of \$12.40 million, and \$8.86 million raised from the issuance of shares. **In October 2008, the company closed a private placement by issuing 13.35 million flow-through shares at \$1.50 per share to raise gross proceeds of \$20.03 million.** The net proceeds of the offering will be used to accelerate the exploration and evaluation of the new high-grade Hinge zones, and initial exploration and evaluation of the Cartwright/Gabrielle zones, and the properties in the Timmins area. We believe SGR's current cash & marketable securities are sufficient to fund its operations and investing activities in the next 12 months.

**Stock options and Warrants:** At the end of June 2008, the company had 14.50 million stock options outstanding, with a weighted average exercise price of \$0.66 and a weighted average remaining life of 3.09 years. The company also had 20.03 million warrants outstanding with a weighted average exercise price of \$1.89 and a weighted average remaining life of 0.92 years.

### **Valuation**

Our revised valuation on the company is \$1.48 per share, compared to \$1.82 per share in our previous report.

Valuation Summary				
	Previous		Revised	
	Fair Value	VPS	Fair Value	VPS
DCF	\$326,302,324	\$1.47	\$246,742,876	\$1.03
Real Options	\$437,318,300	\$1.97	\$465,419,989	\$1.94
Comparables	\$329,442,279	\$1.49	\$308,249,148	\$1.29
Cash Flow Multiple	\$518,280,932	\$2.34	\$398,176,476	\$1.66
<b>Average</b>	<b>\$402,835,959</b>	<b>\$1.82</b>	<b>\$354,647,122</b>	<b>\$1.48</b>

Our **DCF valuation** dropped to \$1.03 per share from \$1.47 per share, primarily because of:

- our reduced revenue outlook for 2008, and 2009 (due to the delay in achieving the planned production rate of 800 tpd, from the previously estimated Q2 2008, to the end of 2008, and lower grade expectations),
- a significant increase in our operating cost forecasts for 2008, and 2009, based on YTD performance,
- revision of our long term operating costs (2010+) from \$75/ton to \$90/ton, and
- an increase in our estimate of the number of diluted shares (previously 221.60 million to 239.61 million; due to the recent private placement and our assumption of the conversion of the convertible debentures in 2008).

**Sensitivity:** Our DCF valuation is highly sensitive to our long-term gold price assumptions. The following tables show our DCF valuation and its sensitivity to long-term gold price forecasts.

DCF Valuation - Summary	
Resource Estimate (in tons)	6,974,578
Wt. Avg. Grade (ozpt)	0.27
Remaining Recovered Metal (in oz)	1,816,071
Recovery	93% (2010+ : 96%)
Operating Costs (C\$/oz) - 2010 +	\$90
Capital Costs	12,000,000
Remaining Mine Life	12
Discount rate	10%
<b>Net Asset Value</b>	<b>\$218,204,566</b>
Working Capital	\$29,388,245
LT Debt	849,935
Net Fair Value	\$246,742,876
No. of Shares (diluted)	239,610,679
<b>NAV per Share</b>	<b>\$1.03</b>

Gold Price	DCF Value/Share (C\$)
\$500	\$0.81
<b>\$600</b>	<b>\$1.03</b>
\$700	\$1.25
\$800	\$1.47
\$900	\$1.68
\$1,000	\$1.90

Our **real options valuation** of the company dropped slightly from \$1.97 per share to \$1.94 per share, primarily because of an increase in the number of diluted shares offset by a higher gold price of US\$725/oz (current gold price) in our model. We used the current gold price (instead of our long-term price forecast of US\$600/oz in our previous model) as the company is close to commercial production.

**Conclusions & Rating**

Our valuation on the company dropped primarily due to the delay in achieving the planned production rate, lower grade expectations during the transition stage, and increased operating cost expectations. However, we note the newly discovered Hinge zone represents great resource upside and potential to increase production from this zone due to its high grade and proximity to the surface.

**Based on our valuation models and review of the company's progress since our previous report, we reiterate our BUY rating on the company, but lower our fair value estimate from \$1.82 per share to \$1.48 per share. Our fair value estimate reflects upside potential of 147% from current price levels.**

**Risks**

We rate the shares a **RISK of 4 (Speculative)**. The following risks, though not exhaustive, will cause our estimates to differ from actual results:

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

## Appendix

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

	2006	2007	2008E	2009E
<b>Revenues</b>	<b>768,771</b>	<b>4,422,817</b>	<b>9,698,006</b>	<b>65,913,341</b>
Operating Costs	8,502,278	18,462,510	30,213,665	35,207,813
<b>Gross Margin</b>	<b>(7,733,507)</b>	<b>(14,039,693)</b>	<b>(20,515,659)</b>	<b>30,705,529</b>
Direct Exploration Expenses	7,496,599	6,583,386	7,472,316	7,845,932
General & Administrative Expenses	5,829,586	6,745,136	5,874,879	5,260,938
Royalty Expenses	578,176	4,212,859	5,857,650	7,703,900
Interest and Bank Charges	962,861	1,823,809	1,012,966	53,265
Deferred Financing Costs	294,567	585,716	-	-
Accretion - Convertible Debentures	305,218	570,198	285,099	-
Accretion - Asset Retirement Obligation	113,973	124,832	137,584	137,584
Depletion of Mineral Properties	445,647	914,747	1,042,163	2,157,002
Amortization - Property, Plant & Equipment	64,602	2,158,455	2,197,845	2,561,843
Share based Compensation	2,780,299	1,376,210	2,078,255	2,078,255
<b>Net Income before other revenue</b>	<b>(26,605,035)</b>	<b>(39,135,041)</b>	<b>(46,474,416)</b>	<b>2,906,811</b>
Indemnification Fee	64,907	84,229	127,576	127,576
Mineral Exploration Assistance Program	195,040			
Project Management Fee			-	
Interest Income	5,091,471	6,524,490	7,401,485	7,401,485
Future Income Tax Recovery	2,807,800	2,589,600		
Income Tax			-	
<b>Net Income</b>	<b>(18,445,817)</b>	<b>(29,936,722)</b>	<b>(38,945,355)</b>	<b>10,435,872</b>
<b>Earning (Loss) per common share</b>	<b>(0.18)</b>	<b>(0.19)</b>	<b>(0.16)</b>	<b>0.04</b>

**Consolidated Balance Sheet**

(in C\$)	2006	2007	2008E	2009E
<b>Current Assets</b>				
Cash	12,210,678	6,628,673	17,776,049	19,054,858
Marketable Securities	837,332	33,608,756	-	-
Accounts Receivable	1,862,244	2,193,518	2,303,194	2,533,513
Supply Inventory	788,961	968,956	4,731,762	5,204,938
Gold in Process	2,719,891	4,135,900	4,342,695	4,776,965
Prepaid Expenses	180,525	272,702	286,337	314,971
Restricted accrued interest		3,513,275	2,926,169	2,926,169
<b>Total Current Assets</b>	<b>18,599,631</b>	<b>51,321,780</b>	<b>32,366,206</b>	<b>34,811,414</b>
Property, Plant & Equipment	6,878,139	9,555,848	12,809,215	16,243,705
Mineral Properties	28,245,175	36,912,653	44,015,902	50,818,853
Collateral Deposits	450,000	450,000	450,000	450,000
Deferred Financing Costs	877,604	-	-	-
Mining Claims and Options	332,649	852,649	1,027,649	1,027,649
Promissory Notes	58,949,805	113,869,000	113,869,000	113,869,000
<b>Total Assets</b>	<b>114,333,003</b>	<b>212,961,930</b>	<b>204,537,972</b>	<b>217,220,622</b>
<b>Current Liabilities</b>				
Accounts Payable & Accrued Liabilities	4,893,516	4,777,732	5,016,619	5,267,450
Current portion of LT debt	172,950	353,063	350,231	335,978
Deferred Revenues	644,383	2,482,659	2,606,792	2,737,132
Convertible Debentures	-	12,294,675	-	-
Current portion of royalty obligations	579,013	4,212,859	4,212,859	4,212,859
Deferred Interest				
<b>Total Current Liabilities</b>	<b>6,289,862</b>	<b>24,120,988</b>	<b>12,186,501</b>	<b>12,553,418</b>
Asset retirement obligation	1,222,306	1,347,138	1,484,722	1,622,306
Convertible Debentures	15,811,741	-	-	-
LT Debt	253,155	450,200	357,537	21,559
Royalty Obligation	58,868,163	113,868,153	113,868,153	113,868,153
<b>Total Liabilities</b>	<b>82,445,227</b>	<b>139,786,479</b>	<b>127,896,913</b>	<b>128,065,436</b>
Shareholders' Equity				
Share capital	65,466,412	143,170,923	184,604,568	184,604,568
Contributed Surplus	5,428,333	10,314,471	11,291,790	13,370,044
Deficit	(39,006,969)	(80,309,943)	(119,255,298)	(108,819,426)
<b>Total S.E &amp; Liabilities</b>	<b>114,333,003</b>	<b>212,961,930</b>	<b>204,537,972</b>	<b>217,220,622</b>

**Consolidate Statement of Cash Flows**

<b>(in C\$)</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
<b>Operating Activities</b>				
Loss for the period	(18,445,817)	(29,936,722)	(38,945,355)	10,435,872
Items not affecting cash				
Accretion - convertible debentures	305,218	570,198	285,099	-
Accretion - asset retirement obligation	113,973	124,832	137,584	137,584
Amortization - deferred financing costs	294,567	585,716	-	-
Amortization - property, plant and equipment	64,602	2,158,455	2,197,845	2,561,843
Depletion	445,647	914,747	1,042,163	2,157,002
Share based compensation	2,780,299	1,376,210	2,078,255	2,078,255
Share based payments		2,269,518		
Adjustment from accounting policy adoption		(1,861)		
Fair market value adjustment to marketable				
Deferred revenues realized		(84,229)		
Future Income Tax Recovery	(2,807,800)	(2,589,600)	-	-
Net change in non-cash working capital	(1,418,466)	(1,366,686)	(3,142,787)	(785,228)
	<b>(18,667,777)</b>	<b>(25,979,422)</b>	<b>(36,347,196)</b>	<b>16,585,327</b>
<b>Investing Activities</b>				
Purchase of Property, Plant and Equipment	(3,120,333)	(4,836,164)	(5,451,212)	(5,996,333)
Change in Marketable Securities	(771,438)	(32,769,563)	33,608,756	-
Investments in Mineral Properties	(10,716,426)	(9,582,225)	(8,145,412)	(8,959,953)
Investment in Promissory Note	(48,869,000)	(55,000,000)		
Purchase of Mining Claims and Options	(50,000)		(175,000)	
Amalgamation Costs				
	<b>(63,527,197)</b>	<b>(102,187,952)</b>	<b>19,837,132</b>	<b>(14,956,287)</b>
<b>Financing Activities</b>				
Shares issued	26,899,815	71,315,698	28,888,871	-
Proceeds from capital lease				
Proceeds from royalty obligation	48,869,000	55,000,000	-	-
Proceeds from debentures	16,734,000		(35,000)	
Convertible debt issue costs	(1,172,171)			
Share issue costs	(442,348)	(4,107,487)	(1,100,936)	
LT debt	(27,516)	377,158	(95,495)	(350,231)
Collateral Deposit				
	<b>90,860,780</b>	<b>122,585,369</b>	<b>27,657,440</b>	<b>(350,231)</b>
<b>Change in Cash</b>	<b>8,665,806</b>	<b>(5,582,005)</b>	<b>11,147,376</b>	<b>1,278,809</b>
Cash, beginning of the period	3,544,872	12,210,678	6,628,673	17,776,049
<b>Cash, end of the period</b>	<b>12,210,678</b>	<b>6,628,673</b>	<b>17,776,049</b>	<b>19,054,858</b>

**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.

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**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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