



Update Report **March 10, 2009**

Recommendation

Speculative Buy

Risk

High

Last Trade (March 5, 2009)

\$0.20

Current Bid-Ask

\$0.15 - \$0.35

52-Week Range (Hi-Lo)

\$1.60 - \$0.20

Target Price

\$1.20 (Unchanged)

Shares O/S

22.3 million

Market Cap

\$4.46 million

Average Daily Volume

20-day: 4,600

150-day: 5,700

Year-End

December 31

C\$ REV EPS CFPS

2007A \$204 \$0.00 \$0.01

2008E \$236 \$0.15 \$0.33

2009E \$261 \$0.25 \$0.32

BVPS: Book Value Per Share

EPS: Earnings Per Share

CFPS: Cash Flow Per Share

Analysts

Bill Campbell, B.Comm.

Bob Weir, B.Sc., B.Comm, CFA

eResearch Corporation
40 University Avenue
Suite 440
Toronto, ON M5J 1T1
Telephone: 416-643-7650
Toll Free: 877-856-0765

SYNERGEX CORPORATION

(\$0.20, TSX: SYX)



Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb .
Data Source: www.BigCharts.com

UPFRONT

Synergex is a logistics and distribution company that is focused on a niche market: video games and related products. Sony is its largest supplier. Business is highly seasonal with the fourth quarter traditionally accounting for more than half of sales and profit. Margins are improving and the Company is a cash-generator. Nine month results showed that its expansion into Latin America is paying off.

RECOMMENDATION

We are maintaining our coverage of Synergex Corporation (“Synergex” or the “Company”) with our “Speculative Buy” Recommendation and our 12-month Target Price of \$1.20 per share, (unchanged from the \$0.24 per share and adjusted for the recent 1-for-5 share consolidation), as originally set out in our Initiating Report of August 8, 2008.

PROFILE

Synergex is a Canadian-based international integrated logistics company providing distribution, freight forwarding, and logistics services under its Commercial Gateway business group. It is amongst the largest distributors of video games, game consoles, and accessories in Canada.

HIGHLIGHTS

- A major logistics and distribution company serving the rapidly growing video games and accessories market;
- Expansion into its Latin American markets provides additional growth opportunities;
- Prospects for Sony products (the Company's largest supplier) are attractive with PlayStation 3 expected to be the strongest growing console model between now and 2012, which should lead to strong growth for its related games;
- Sale of Synergex Technology and the Collection Services workgroup will enable management to focus more closely on the logistics and distribution business;
- Company had continuing strong performance for Q3/2008;
- Management is considering acquisitions to further expand the logistics and distribution operations; and
- Closely held, with management owning 76% of the outstanding shares; trading highly illiquid.

THE COMPANY

Synergex Corporation became a public company in 2005 through a share exchange transaction under which Carma Financial Services Corporation amalgamated with Synergex Corporation, with the resulting company retaining the Synergex Corporation name. The private companies which comprised Synergex had been created and built over the previous 20 years by David Aiello, the current President and CEO of the Company.

1. Core Operations

The Synergex core Commercial Gateway business is a leading provider of distribution, fulfillment, and logistics solutions that fulfill a corporation's supply chain management needs and objectives. Operations include a mix of fee for service and complete distribution relationships where revenue may be reported only as a fee or, in the case of distribution, includes the cost of goods plus a margin. Commercial Gateway is the primary business of Synergex and accounted for 97% of the Company's revenues in 2007, and will be even higher in 2008 as a result of the sale of non-core businesses during the year.

This group provides supply chain management services including third party logistics services primarily to suppliers of electronic entertainment products. This operation began approximately ten years ago when the Company became the commercial gateway to Canadian retailers for Sony Computer Entertainment America. These activities have recently been expanded internationally, into Mexico and South America, specifically Brazil, Columbia, Chile, Peru and Argentina.

2. Non-Core Operations

The Company's non-core business operations had consisted of its Technology workgroup, Collection Services workgroup and Credit Reporting Services workgroup. Technology and Collection Services, both of which have been sold, provided 3.5% and 1.7% of 2007 sales, although the Technology workgroup had consistently generated losses.

In May and June 2008, Synergex announced the respective sales of the Technology workgroup and the Collection Services workgroup to a private company controlled by David Aiello. Synergex received a note payable for approximately \$7 million and its retained earnings increased by approximately \$1.3 million. The sale of these operations will enable Synergex to focus on its logistics and distribution operations.

RECENT DEVELOPMENTS

1. Nine Month 2008 Results

For the third quarter of 2008, Synergex reported earnings of \$366,503 (\$0.00 per share) compared with earnings from continuing operations of \$426,178 (\$0.00 per share) for the same period in 2007.

The key reason for the decline was a charge for amortization of pre operating costs of \$607,850 in the 2008 quarter. There was no charge a year earlier. The Company achieved a strong 68.2% sales gain in the latest period as a result of a 46% sales increase in the Canadian logistics and distribution operation, a doubling of sales in the Business Services Group and the benefit of \$6.5 million in sales from the Latin American operation which had no sales in the year earlier period. Gross profit of \$6.9 million in the third quarter of 2008 was 50% higher than that of the 2007 quarter as gross profit margins declined slightly to 13.3% from 14.9% primarily because of a shift in revenue mix between supply chain fee based services and distribution of products.

These results brought net income from continuing operations for the first three quarters of 2008 to \$823,728 (\$0.05 per share) compared with \$1.07 million (\$0.05 per share) for the first nine months of 2007. Again, the decline was entirely due to a \$1.8 million amortization of pre-operating costs in the latest period. Sales increased approximately 42% to \$116.7 million reflecting a 21.4% gain in sales in the Canadian logistics and distribution operation, of \$16.5 million of sales from the Latin American operation which had no sales in the year earlier period and a 32% gain in Business Services sales to approximately \$2.5 million. Gross profit rose approximately 50% to \$17.4 million as gross margins increased from 14.1% to 14.9%. The Company benefited from the distribution of a higher volume of video game products in the latest period and a change in the mix of revenue generated from the fee based services and the distribution of products.

The Company has restated its second quarter and six month results to correct an error which it had made in reporting the gain on disposal of discontinued operations. This item of approximately \$3.6 million (\$0.15 per share) is no longer included in net income but is shown as an increase in contributed surplus. This meets the requirements of Related Party Transactions in the CICR Handbook. We had already excluded this item in our earnings estimates for 2008.

Table 1: Nine Month 2008 Results (\$'000s)

| | Third Quarter | | | Nine Months | | | Trailing 12 Months | | |
|-------------------------|---------------|--------|----------|-------------|---------|----------|--------------------|---------|----------|
| | 2007 | 2008 | % Change | 2007 | 2008 | % Change | 2007 | 2008 | % Change |
| Sales | 30,909 | 51,990 | 68.2 | 82,328 | 116,720 | 41.8 | 169,945 | 238,254 | 40.2 |
| Gross Profit | 4,599 | 6,913 | 50.3 | 11,619 | 17,402 | 49.8 | 22,705 | 31,861 | 40.0 |
| Gross Margin | 14.9% | 13.3% | | 14.1% | 14.9% | | 13.30% | 13.40% | |
| Net from Cont. ops | 426 | 367 | 13.9 | 1,072 | 824 | -23.2 | 1,797 | 463 | |
| Net Profit | 214 | 367 | nmf | 267 | 360 | nmf | 1,797 | 1 | |
| EPS from Cont. ops (\$) | 0.00 | 0.00 | | 0.01 | 0.01 | | 0.15 | 0.00 | |
| EPS (\$) | 0.00 | 0.00 | nmf | 0.00 | 0.00 | nmf | 0.15 | 0.00 | |

Source: Company and eResearch

COMMENT: *The first three quarters is seasonally the weakest period for the Company's Commercial Gateway operation. Thus, we expect the trends, which began in the first nine months (increased sales from Latin America and improving profit margins), to strengthen further over the balance of the year.*

2. Recent Corporate Developments

In June 2008, the Company announced the sale of its Collection Services business and Technology Management operation, which had consistently generated net losses to a private company controlled by David Aiello. This will enable Synergex to focus on its core integrated logistics and distribution businesses in Canada and Latin America. This transaction generated a gain of approximately \$3.6 million (\$0.15 per share)

As mentioned in our Research Bulletin of September 22, 2008, the Company announced an exclusive three year agreement with World Wrestling Entertainment Inc (WWE) to distribute home entertainment products in five South American countries – Brazil, Columbia, Peru, Chile and Argentina.

This will expand the Company's Latin American activities to two additional countries, Peru and Argentina, and will lead to the packaging, marketing and distribution of a minimum of 25 WWE releases each year, beginning in the fourth quarter of 2008.

The Company also announced that it had signed a logistics and distribution deal with InComm, the leading provider of gift cards, prepaid wireless products, reloadable debit cards, digital music downloads and a variety of other prepaid products. Synergex will handle InComm's distribution needs in Canada and expects to distribute over 100 million units of InComm products in Canada over the next three years. Synergex will be paid on a fee for service basis under this transaction.

COMMENT: *We regard these transactions as positive developments in the Company's plans to expand the services it offers in both its Latin American and Canadian markets.*

The Company also undertook a 5 for 1 share consolidation effective February 11, 2009. This has been reflected in all the per share calculations in this report.

OPERATIONS

Value Added Commercial Gateway Services

Synergex provides a wide range of value added services for its Commercial Gateway clients which differentiates itself from possible competitors. Today, many clients ship raw discs on spindles; Synergex produces the bilingual covers and manuals and then packages them into a finished product.

The Commercial gateway operation is divided into two sectors:

- (1) fee-based services; and
- (2) distribution services.

1. Fee Services

The Company provides a wide range of services to its customers, including logistics, distribution, packaging, returns management, and accounts receivable management.

Product localization services including translation services, graphic design, printing services, and more recently full packaging services for video games were introduced in 2007. It believes that, while other companies may compete in specific areas of its product range, no single competitor can provide the range of services which Synergex offers. This range of services also enables the Company to generate incremental fee revenue as additional services are provided to the customer.

The Company's supply-chain clients include many of the world's leading computer entertainment publishers and manufacturers, including Sony Computer Entertainment America, Square Enix Inc., EIDOS Interactive Ltd., Atari Inc., and Lucas Arts. Four of these clients provided approximately 63% of 2007's purchases by the Company.

2. Distribution Services

The products are distributed to many of Canada's leading retailers, including Wal-Mart, Future Shop, Best Buy, and EB Games. In 2007, two customers each accounted for over 10% of sales. In Latin America, major customers include Wal-Mart, Sears, Carrefour, and Falabella.

3. Bilingual Packaging

In response to the implementation of Government regulations related to bilingual packaging, instructions manuals, and other printed materials related to video game materials sold in Canada, the Company constructed two dual-packaging lines in mid-2007. This now enables the Company to provide bilingual packaging for video game disks, translation of bilingual manuals, and printing of new sleeves and covers for new video games sold in Canada.

Another competitive advantage for Synergex is the speed with which it can process an order. In many cases, a customer will deliver a new game which it wants to sell in its stores within a week. Even on a one-shift basis, the Company has ample capacity to process two or three orders simultaneously.

4. Business Seasonality

The Company's business is highly seasonal with the fourth quarter accounting for a significant portion of full year sales and gross profit. For 2007, approximately 58% of sales and 53% of gross profit were generated in that quarter.

COMMENT: *Sales levels can vary substantially with the mix between fee services and distribution services where the cost of the product is included in the revenue. Thus, sales growth can vary between quarters depending on the mix of services.*

CORPORATE STRENGTHS AND CHALLENGES

1. Strengths:

- Since its inception approximately 20 years ago, the Company's ongoing success has been due to a number of factors which have included a continuous expansion of the number of services which the Company provides to its customers, the establishment of long-term relationships with its major clients, and its concentration on a niche market (video games and related products) for its activities rather than distributing a wide range of items.
- From its founding as a small freight forwarder, the Company has expanded to become a provider of a wide range of services to over 350 clients through its staff of over 128. The services provided range from distribution to information systems and transportation management. These services cover activities such as inventory management, transportation, inbound and outbound product flows, and reverse logistics operations. The services offered range from computer programs for accounts receivable and inventory controls, to full-service packages which cover products from order to delivery, including packaging.
- The Company has also retained its major customers for relatively long periods with Sony and Wal-Mart being customers since 1998 and Atari since 2000.
- The Company is about to expand its distribution activities to include licensed products related to major video games and other entertainment-related products. However, these items will be closely related to products which the Company already distributes and will be an example of expanding relationships with its major customers.

2. Challenges:

- One of the challenges facing the Company is the expansion of its existing markets. Synergex is believed to be one of the largest companies in its field in the Canadian market. Thus, its expansion into Latin American markets is expected to offset the anticipated slowdown in the Canadian economy over time although the Video game market is expected to achieve solid growth in 2008 and 2009 based on trends in the comparable US market (see Industry Prospects).
- There is the risk that a major supplier of video games could decide to establish its own distribution system, which would not be a cost-effective alternative.
- There is the risk that the Latin American expansion may not meet expectations.

INDUSTRY PROSPECTS

Although Synergex does not distribute in the United States, we believe that industry statistics there are a good indicator of industry performance in Canada. For the first ten months of 2008, industry sales have risen approximately 27% to \$13.7 billion despite the economic downturn. September was the only month in the past two years to experience a sales decline with overall sales falling 7% to \$1.27 billion. This was followed by a rebound in October as year over year sales grew 18% to \$1.31 billion led by a 35% increase in software sales. NPD Group, a major market research firm which closely monitors the industry currently expects full year revenues to increase approximately 28% to \$22-24 billion. This reflects other industry views that video games remain a relatively inexpensive entertainment product which consumers will continue to purchase even in a weak economy.

COMMENT: *We believe that with both the Canadian and the Latin American economies in which Synergex operates expected to perform better than that of the U.S., the Company should continue to benefit from strong sales of video games.*

FINANCIAL REVIEW AND OUTLOOK

1. 2007 (Year Ending December 31)

For our comments on 2007's performance, see our Initiating Report dated August 6, 2008, And available on our website at www.eresearch.ca.

2. 2008

We expect the Company's Commercial Gateway operations to benefit from continued growth in its Canadian market as well as a full year's operation of its Latin American distribution system.

(a) Sales

We have assumed that the Company achieves at least 9.0% sales growth in its Canadian Commercial Gateway operations as strong sales growth in the video games sector is partially offset by a lower rate of growth in the console sector. This follows last year's particularly strong results in this area. The change in product mix should lead to somewhat lower overall sales growth but significantly improved gross profit margins.

We have also assumed that full-year sales from the Latin American operation should reach at least \$27 million compared with last year's \$9.3 million for its three month start-up period.

This would lead to total 2008 sales from the Commercial Gateway operation of approximately \$233.0 million, about 18% above the \$196.5 million of 2007.

We have assumed that sales in the Company's non-core businesses decline approximately 58% for the full year to about \$3.1 million from 2007's \$7.1 million. This will primarily reflect the sale of the Technology and Collection Services workgroups operations in June, 2008. This would lead to total 2008 sales for Synergex of \$236.1 million compared with \$203.6 million for 2007.

COMMENT: *Profit margins are better on the sale of games than on the sale of hardware. Thus, if game sales increase as a percentage of the total sales in any period, overall sales growth could slow in a period but gross profit could increase as a result of the higher profit margin on game sales.*

(b) Margins

Gross profit margins in the first nine months of 2008 rose to 14.9% compared with 14.1% in the year earlier period as the Company benefited from a change in the sales mix to more profitable games and a contribution from the Latin American operation. We have assumed that these factors, together with the benefit of a more stable exchange rate between the U.S. and Canadian currencies, will lead to an increase in gross profit margin for 2008 to 15.7% compared with 12.8% for 2007. The pressure on profit margins in the fourth quarter of 2007 was largely due to three factors which will not be present in the last quarter of 2008. These were a rapid and significant increase in the value of the Canadian dollar relative to the US currency the impact of which could not be passed on to customers, a high proportion of console sales relative to more profitable game sales in the sales mix which depressed margins and startup costs in the South American operation. The expected improvement in profit margins in the latest period should lead to a gross profit of \$37.2 million for 2008 compared with \$26.1 million for 2007 and is the best method of monitoring the results for the company due to the varying sales mix between fee for service operations and distribution sales where the Company acts as the principal.

(c) Expenses

Selling, general and administrative costs are expected to reach \$27.9 million from \$24.2 million in 2007. Amortization expense could increase significantly to \$4.0 million from \$1.8 million, primarily as a result of the amortization of the remaining \$2.4 million of pre-operating costs related to the Latin American operations.

(d) Earnings

Net earnings should be approximately \$2.87 million, or \$0.15 per share, compared with a slight loss, or \$0.00 per share for 2007.

3. 2009

For 2009, we are forecasting a further sales gain of 10% for the Canadian Commercial Gateway operations and 15% for the Latin American operation as it achieves further penetration of that significantly larger market.

As sales volumes vary due to the mix of fee based revenues versus distribution revenues, gross profit growth is the best measurement of progress year-over-year. We have assumed that gross profit margins remain at 15.8% leading to gross profit for 2009 of \$41.2 million compared to a gross profit of \$37.2 million for 2008 and \$26.1 million for 2007. Amortization expense should decline to about \$2.0 million as the Latin American pre-operating costs will be totally amortized. This should lead to our 2009 earnings estimate of approximately \$5.1 million, or \$0.25 per share.

4. Abridged Financial Statements

Set out below are abridged statements of income/(loss), cash flow, and the balance sheet.

Table 2: Abridged Financial Statements

| Statement of Income/(Loss): | Year ending December 31: | | | | |
|---|--------------------------|---------|----------|----------|---------|
| | 2005 | 2006 | 2007 | 2008e | 2009e |
| Revenue | 151,267 | 175,942 | 203,662 | 236,100 | 260,700 |
| Cost of Sales | 129,680 | 152,026 | 177,584 | 198,900 | 219,468 |
| Gross Profit | 21,587 | 23,916 | 26,078 | 37,200 | 41,232 |
| Gross Margin | 14.3% | 13.6% | 12.8% | 15.8% | 15.8% |
| S,G&A | 13,663 | 18,292 | 24,177 | 27,900 | 30,732 |
| EBITDA | 7,924 | 5,624 | 1,901 | 9,300 | 10,500 |
| EBITDA Margin | 5.2% | 3.2% | 0.9% | 3.9% | 4.0% |
| Amortization | 808 | 1,026 | 1,839 | 4,072 | 2,000 |
| EBIT | 7,116 | 4,598 | 62 | 5,228 | 8,500 |
| Other Income/(Expenses) | (129) | 136 | (53) | (410) | (410) |
| EBT | 6,987 | 4,734 | 9 | 4,818 | 8,090 |
| Income tax - current | 1,958 | 1,535 | 1,295 | 1,400 | 2,400 |
| - future | 645 | (238) | (1,195) | 142 | 188 |
| Net Income/(Loss) from cont. ops | 4,384 | 3,437 | (91) | 3,276 | 5,502 |
| Preferred Dividends | 276 | 411 | 404 | 404 | 404 |
| Net Income from cont ops (for common) | 4,108 | 3,026 | (495) | 2,872 | 5,098 |
| Net Margin | 2.7% | 1.7% | -0.2% | 1.2% | 2.0% |
| Total Shares O/S | 22,298 | 22,298 | 22,298 | 22,298 | 22,298 |
| Average Shares O/S | 22,298 | 22,298 | 22,298 | 22,298 | 22,298 |
| Earning/(Loss) Per Share from cont. ops | \$0.20 | \$0.15 | (\$0.00) | \$0.15 | \$0.25 |
| Statement of Cash Flow: | | | | | |
| Net Income/(Loss) | 4,108 | 3,026 | (495) | 2,872 | 5,098 |
| Less: Net Income/(Loss) from disc. ops | - | - | - | (460) | - |
| All Non-Cash Items | 1,546 | 1,177 | 795 | 4,972 | 1,988 |
| Cash Flow from Operations | 5,654 | 4,203 | 300 | 7,384 | 7,086 |
| Capital Expenditures | (1,049) | (2,319) | (5,269) | (2,300) | (2,300) |
| Other Investing Items | (276) | (411) | (404) | (404) | (404) |
| Free Cash Flow | 4,329 | 1,473 | (5,373) | 4,680 | 4,382 |
| Changes in Working Capital | (1,681) | 376 | 516 | (10,233) | (6,272) |
| Equity Financing | (164) | (997) | (350) | - | - |
| Debt Financing | (113) | (119) | 4,666 | 4,519 | 3,474 |
| Change in Cash | 2,371 | 733 | (541) | (1,034) | 1,584 |
| Cash at Beginning of Period | 4,010 | 6,381 | 7,114 | 6,573 | 5,539 |
| Cash at End of Period | 6,381 | 7,114 | 6,573 | 5,539 | 7,123 |
| As at December 31: | | | | | |
| Balance Sheet: | | | | | |
| Cash | 6,381 | 7,114 | 6,573 | 5,539 | 7,123 |
| Accounts Receivable | 36,483 | 56,007 | 78,494 | 96,220 | 110,834 |
| Other Current Assets | 3,571 | 6,599 | 12,012 | 15,600 | 17,940 |
| Capital Assets | 2,681 | 3,936 | 5,833 | 6,533 | 7,073 |
| Intangibles | - | 144 | 104 | 64 | 24 |
| Other Assets | 568 | 1,007 | 4,174 | 4,885 | 5,073 |
| Total Assets | 49,684 | 74,807 | 107,190 | 128,841 | 148,067 |
| Current Liabilities | 35,438 | 58,320 | 85,975 | 96,252 | 107,110 |
| Current Portion LTD | 118 | - | 307 | 1,053 | 1,053 |
| Debt/Capital Leases | 334 | 218 | 5,388 | 9,862 | 12,974 |
| Future Taxes Payable | 160 | 249 | 189 | 331 | 519 |
| Total Liabilities | 36,050 | 58,787 | 91,859 | 107,498 | 121,656 |
| Shareholders Equity | 13,634 | 16,020 | 15,331 | 21,343 | 26,411 |
| Total Liabilities & Equity | 49,684 | 74,807 | 107,190 | 128,841 | 148,067 |
| Book Value Per Share | \$0.61 | \$0.72 | \$0.69 | \$0.96 | \$1.18 |
| Cash Flow Per Share | \$0.25 | \$0.19 | \$0.01 | \$0.33 | \$0.32 |
| Cash Per Share | \$0.29 | \$0.32 | \$0.29 | \$0.25 | \$0.32 |

Source: Company and eResearch

COMMENT: *As sales dollar volumes can vary widely due to the mix of higher margin fee based services compared to lower margin distribution services gross profit dollars are the best measurement of the year-over-year results.*

RISKS TO FORECAST

As a relatively small Canadian-based company that has recently expanded into international markets, Synergex is faced with a number of risks which could adversely affect its operations, our forecasts, and the stock price.

We believe there are three main areas of risk:

- 1. Operational Risk:** The Company relies on four major suppliers, together which provided approximately 63% of its purchases in 2007. The loss of any one or more of these suppliers could adversely affect Synergex's performance.

The Company also relies on two major customers which each account for over 10% of sales. The loss of one or both of these customers could negatively impact the Company's performance.

Synergex has a relatively small management team. The loss of any key member of the team would adversely affect its performance.

CEO David Aiello has interests in several other companies including Bio-Advantax Pharma Inc (100% owned), and a private company which recently purchased the Synergex Technology and Collection Services operations.

COMMENT: *Although this could be regarded as a potential negative given the possible competition for Mr. Aiello's time and energies, management has stated that it is planning to focus more closely on the growth of Synergex's logistics and distribution operations, for which Mr. Aiello will play a major role.*

- 2. International Market Risk:** The Company is faced with a variety of risks related to operating in international markets. A major one is foreign exchange risk. The Company purchases most of the products which it distributes in U.S. dollars, and until recently, sold them in Canadian dollars. Thus, it is affected by the relative value of these two currencies. With the Company now operating in four Latin American countries, it will be exposed to a number of additional foreign currencies, thereby increasing its exchange risk. Another risk of operating in international markets is the ability to hire key personnel in foreign locations and to closely monitor the widespread operations.
- 3. Financial Risk:** The Company's stock is closely held and it has a relatively small float. Thus, its trading can be more volatile than that of a more marketable equity.

VALUATION

Synergex's Commercial Gateway Group, which accounted for approximately 97% of 2007 revenues, faces competition from a number of companies in the logistics and distribution area. These range from giant multinational corporations to small owner-managed businesses

Although there are few other publicly traded companies which operate in the same market sector as Synergex, we have found three which have extensive distribution activities in both the U.S. and Europe for a wide range of entertainment or IT products.

1. Majesco Entertainment Company: (NASDAQ: COOL)

This Company produces and distributes video game software and other digital entertainment products in the US and internationally. It publishes video games for interactive entertainment platforms, including Nintendo's DS and Wii, Sony's PlayStation 2, and Microsoft's Xbox and Xbox 360.

2. Navarre Corp.: (NASDAQ: NAVR)

Navarre Corp. is engaged in the publication and distribution of physical and digital home entertainment products in the U.S. and Canada. The distribution operation distributes DVD videos, PC software and video games software and accessories to retail customers. The publishing operations licences Pc software and DVD video titles.

3. Tech Data Corp.: (NASDAQ: TECD)

Tech Data Corp. distributes information technology products and offers logistics management and other value-added services worldwide. It sells and distributes both hardware and software to a wide range of customers.

| Company Symbol | Share Price | Shares O/S (millions) | Market Cap (millions) | Earnings/Share | | P/E | | Cash Flow/Share | | P/CF | |
|----------------|-------------|-----------------------|-----------------------|----------------|--------|------|------|-----------------|--------|------|------|
| | | | | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| COOL | \$0.66 | 30.1 | \$20.0 | \$0.02 | \$0.11 | 33.0 | 6.0 | \$0.14 | \$0.23 | 4.7 | 2.9 |
| NAVR | \$0.40 | 36.3 | \$14.5 | \$0.20 | \$0.16 | 2.0 | 2.5 | \$0.75 | \$0.71 | 0.5 | 0.5 |
| TECD | \$17.79 | 50.2 | \$0.9b | \$2.04 | \$1.99 | 8.7 | 8.9 | \$3.05 | \$3.01 | 5.8 | 5.9 |
| Average | | | | | | 14.6 | 5.8 | | | 3.7 | 3.1 |
| SYX | \$0.35 | 22.3 | \$7.8 | \$0.15 | \$0.25 | 2.3 | 1.4 | \$0.30 | \$0.30 | 1.2 | 1.2 |

Source: eResearch

As shown in the Table above, Synergex shares are currently trading at 2.3x our 2008 estimate and 1.4x our 2009 earnings forecast. This is significantly below the average 14.6x and 5.8x price-earnings multiples of our group of comparable company shares. We believe that this reflects the Company's relatively short history as a public company and the closely held nature of its shares. As investors become more familiar with the Company and the potential of its Latin American expansion as well as recognizing the Company's strong performance, we believe that the multiple on the stock should expand to approximately that of the comparable group, or 5.8x our 2009 estimate.

If we use multiples of cash flow, the Company again is trading at a significant discount to the multiples of its comparable group. If we assume that again this increases to that of the group, we generate a p/cf multiple for Synergex of 3.1x.

Taking an average of the two valuation methods, we generate a 12-month Target Price for Synergex of \$1.20 per share, unchanged from our previous \$1.20 price target (formerly \$0.24 and adjusted for the 1-for-5 consolidation), as set out in our Initiating Report.

ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that:

- (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and
- (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

eResearch analysts on this report:

Bill Campbell, B.Comm.: Bill Campbell has 39 years of experience as a research analyst including over 20 years as a senior analyst at Burns Fry, Maralor Investments, Equity Value Service, Majendie Securities, and Pineridge Financial. His analytical experience extends to industrial products, steels, auto parts, transportation, and aerospace. He was ranked the number one "special situations" analyst by Brendan Woods in 1988.

Bob Weir, B. Comm, B.Sc., CFA. Bob Weir has 42 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

eRESEARCH ANALYST GROUP

Managing Director, Research Services: Bob Weir, CFA

Financial Services

Robin Cornwell

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Ross Deep

Mining & Metals

George Cargill

Eric Eng

Adrian Manlagnit

Kirsten Marion

Oliver Schatz

Graham Wilson

Michael Wood

Special Situations

Asim Bukhtiar

Bill Campbell

Ross Deep

Bob Leshchyshen

Amy Stephenson

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eResearch Recommendation System

| | |
|-------------------------|---|
| Strong Buy: | Expected total return within the next 12 months is at least 40%. |
| Buy: | Expected total return within the next 12 months is between 10% and 40%. |
| Speculative Buy: | Expected total return within the next 12 months is substantial, but Risk is High (see below). |
| Hold: | Expected total return within the next 12 months is between 0% and 10%. |
| Sell: | Expected total return within the next 12 months is negative. |

eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

| | |
|---------------------|---|
| High Risk: | <p><i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.</p> <p><i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.</p> |
| Medium Risk: | <p><i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.</p> <p><i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.</p> |
| Low Risk: | <p><i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.</p> <p><i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.</p> |

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