

Transeuro Energy Corp. (TSX.V: TSU) – Lowers Risk By Signing LOI To Transfer Ownership of Licenses in PNG

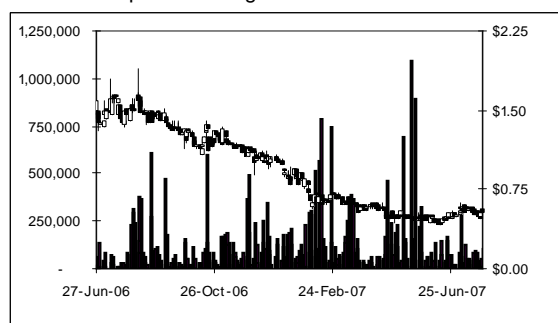
Sector/Industry: Oil & Gas

www.transeuroenergy.com

Market Data (as of July 27, 2007)

Current Price	C\$0.53
Fair Value	C\$1.25
Rating*	BUY
Risk*	4 (Speculative)
52 Week Range	C\$0.41 – C\$1.39
Shares O/S	207,898,242
Market Cap	C\$110.19 mm
Current Yield	N/A
P/E	N/A
P/B	0.91
YoY Return	-66.5%
YoY TSX	23.9%

*see back of report for rating and risk definitions



Q1-2007 Highlights

- In June 2007, TSU announced that they signed an agreement (an arm's length transaction) with Surge Resource Inc. (TSXV: SRH-H) to transfer ownership of four licenses held by the company in Papua New Guinea (PNG). The value of the deal is estimated to be \$25.5 million, which is about 12% above our fair value estimate of the licenses. We believe this deal will allow TSU to focus more on its other assets (in Canada, Ukraine and Armenia), lower the overall risk of the company, and simultaneously participate in the upside potential of these assets through its equity ownership in Surge.
- Production revenues in Q1-2007 were inline with our expectations. However, based on a slight delay in the development program at the Beaver River field, we have revised our revenue forecasts for FY2007, and FY2008, downward.
- Due to a lack of funds, and the proposed agreement to transfer ownership of licenses in PNG, we have lowered our estimate of total CAPEX for FY2007, and FY2008, from \$96 million to \$67 million. TSU has about 76.42 million warrants outstanding (exercise price of \$0.61) that expire in December 2007. We believe the company will significantly revise their capital budget program upward, and speed up their development program in FY2008 if these warrants are exercised.

Key Financial Data (FYE - December 31)

(C\$)	2006	2007E	2008E
Revenue	2,461,489	5,218,106	48,444,375
Net Income	(27,685,520)	8,808,312	(4,935,649)
EPS	(0.23)	0.04	(0.02)
Cash	17,019,841	12,973,752	5,932,182
Working Capital	4,540,164	8,246,872	283,969
Total Assets	98,591,434	131,233,816	150,564,703

Transeuro Energy Corp. is a global exploration and production (E&P) company with a diverse portfolio of high potential projects in 4 different regions worldwide – Canada, Crimean Peninsula (Ukraine), Papua New Guinea and Armenia. The Beaver River Project in B.C., Canada is currently producing and the fields in Ukraine are expected to start production in 2008. The company is preparing an aggressive exploration and development program (costing \$60 million) on all its properties in the next 12 months.

Signs LOI to transfer ownership of PPLs in PNG

On June 4, 2007, TSU announced that they entered into a letter of intent (LOI) with Surge Resources Inc., whereby TSU will transfer to Surge their 100% interest in four PPL (Petroleum Prospecting Licenses) in Papua New Guinea (PNG), and all related geological, seismic, and technical data. The four licenses, which are subject to a 22.5% option held by the government of PNG, grant the right to explore about 4.53 million net acres of land in PNG. Surge, an arm's length party to TSU, currently trades on the NEX board of the Exchange, but intends to move up to Tier 2 of the Exchange, contingent to completion of the transaction (expected by July 31, 2007) and approval of the exchange. The value of the deal is estimated to be about \$25.5 million, which is about 12% above our fair value estimate of the four licenses (\$22.7 million).

Deal Specifics

- Surge has agreed to issue to TSU 30 million common shares of Surge with a deemed price of \$0.85 per share, for a total consideration of \$25.5 million.
- After the transaction and a private placement of \$7 million by Surge, TSU will own approximately 53% of the issued and outstanding shares of Surge. Surge has also agreed to grant TSU the right to acquire up to 50% of the securities issued by Surge in any financings within two years from the closing of the transaction. Surge's stock price has risen by 53.1% since the announcement of this transaction, from \$0.98 on June 1, 2007, to \$1.50 as of July 12, 2007.
- TSU will also have the right to buy back a 10% working interest in the assets, after Surge has drilled and tested three exploration wells, by paying Surge 10% of the exploration and development costs incurred.
- Hal Hemmerich, President and CEO of TSU, will be appointed to the Board of Directors of Surge on closing of the transaction.

Deal Conditions

- Surge was required to complete a private placement of \$7 million. On June 28, 2007, Surge announced that they closed a brokered private placement, by issuing 12 million subscription receipts, and raised \$10.2 million.
- Surge is also required to obtain an engagement proposal from an investment banking firm to raise at least \$50 million.
- Receipt of approval from the Exchange and the shareholders of Surge.

We believe this transaction is very timely for TSU. This deal would allow TSU to focus more on its other assets (in Canada, Ukraine and Armenia), lower the overall risk of the company, and simultaneously participate in the upside potential of these assets through its equity ownership in Surge.

Update on Properties

Beaver River Property, Canada

The property's only producing well (A2) is currently flowing at just under 3 mmcf/d. The company is pursuing a six well program, which is now expected to be completed by mid 2008 (instead of end of 2007). However, delays are not uncommon in the oil and gas sector, and we are not very concerned about the delay at this time. The well program includes five

shallow appraisal wells in Mattson, to determine the size and commercial viability of the resource, and one deep well in the Nahanni reservoir.

Production from the first shallow well (A7), which was drilled to depth at 1,781m, commenced in March 2007, at a modest rate from one of the two intervals. Management believes that alternative fracturing techniques will improve rates from individual zones, and expects to stimulate two further intervals later this year to increase flow rates. TSU's objective is to prove the reservoir can provide a continuous flow of gas (although flow rates are currently on the lower side), so that the potential of the whole reservoir can be determined.

The second shallow well (B3) was drilled (2,126m), logged and cased towards the end of March 2007. Completion operations commenced in the third week of July 2007, where up to six prospective intervals were identified for perforation and stimulation. Data from the A2, B3 and A7 wells will be used to determine the potential of the Mattson.

The third well (A-6) was re-entered and a number of mini-frac operations have been conducted. Testing is expected to resume in July 2007.

The company has received all requisite approvals to drill a deep well (A8) in the Nahanni reservoir. Work has already started on the A8 well, which will test three additional zones including the Mattson, Mississippian fractured carbonates and Devonian Shales. Drilling is expected to commence in early August 2007, and will take approximately 120 days.

TSU is currently preparing a new resource report on the Beaver River Field, so that they can develop the reservoir further, and determine the possible range of reserves available in the field.

Valuation: Since there has been a slight delay in the development schedule, we have lowered our production forecasts in 2007, and 2008. Our revised production forecasts for FY2007, and FY2008, are 346 bpd and 2,535 bpd, respectively, compared to our previous forecasts of 594 bpd and 3,333 bpd. The average forecasts for short-term natural gas prices were also slightly lowered (according to Sproule and GLJ Petroleum). As a result of these changes, our valuation on the Beaver River Field (shown below) dropped from \$66.5 million (\$0.23 per share) to \$60.0 million (\$0.21 per share).

Net Asset Value					
	0%	5%	10%	15%	20%
NPV (before tax)	118,308,309	100,150,532	85,316,318	73,077,643	62,890,095
NPV	85,057,455	71,248,394	59,994,550	50,733,563	43,045,269
NAV (@ 10%)	59,994,550				
Shares (fully diluted)	284,319,942				
NAV / Share	\$0.21				

Ukraine

The first well (Karl 101) in the Karlavskoye field was initially logged and cased (at 1,080 m) just above the top gas-bearing reservoir. Further drilling is planned down to the intermediate

casing at 3,200 m, where the reservoirs are expected. If good gas shows are identified in the shallow reservoir, the company will commence testing operations.

TSU plans to acquire more 2D seismic in the summer. If results at Karl 101 are favorable, the company intends to construct a gas treatment plant (GTP) and a connecting pipeline to tie in the Karlavskoye and Krasnapoliyanskoye gas fields to the existing gas mainline. On the Krasnapoliyanskoye field, two shallow wells are currently ready for production, and will be tied in once the GTP is constructed (expected by mid-2008). The company has already obtained all approvals for the GTP. The 5-year license on the Krasnapoliyanskoye field expires in November 2007. Extended well tests on wells 5 & 11 (two lateral re-entries) are being conducted to prepare a reserve report on the Krasnapoliyanskoye field, as per the requirements of the licenses.

In the Povorotnoye field, TSU is planning to shoot a 287 sq.km 3D seismic over the area. Drilling of a deep well (Pov 101) has been postponed to next year due to lack of sufficient funds.

In the Vladislavskoye field, an extended well test is being pursued on Vlad 28 (drilled to 755 m). If results are positive, TSU expects to continue development by drilling two additional wells (Vlad 29 and 30) by the end of 2007.

Valuation: Since there were no major changes in the schedule, we have not made any changes in our valuation on the properties in Ukraine.

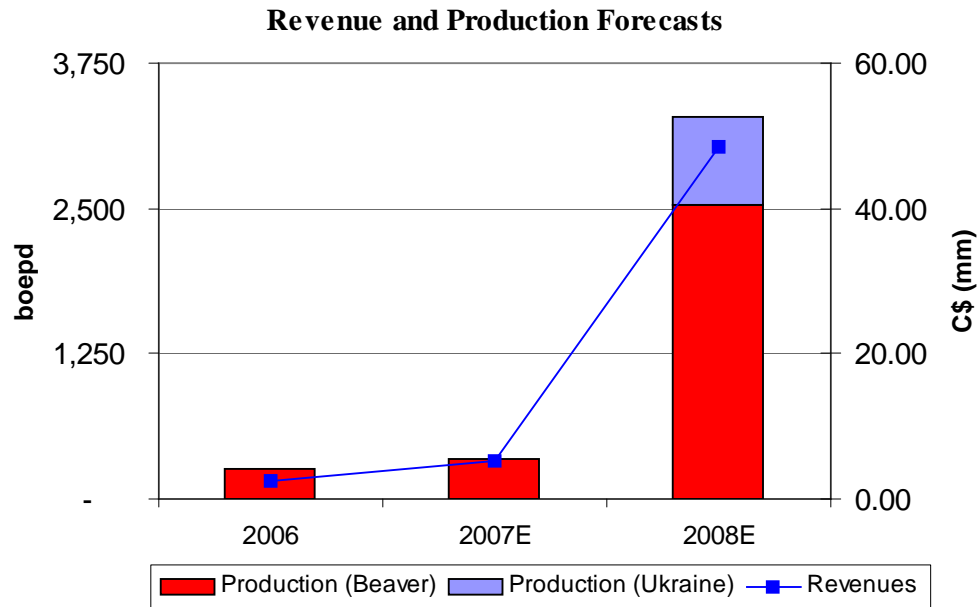
Armenia

TSU has decided to put their initial focus on two areas in Block 2: the Oktemberian gas and Shorakhpur oil prospects. The company has planned to drill the first exploration well (2,500m) in Karmir in 2007, to assess the hydrocarbon potential in the Oktemberian region. Management indicated that a rig has already been secured and drilling will commence in August 2007. Additional drilling is planned in the Southwest Oktemberian (SWOKT) and Shorakhpur oil prospect in 2008. TSU also has plans to acquire more seismic this summer to identify subsequent well locations.

Valuation: We continue to value the properties in Armenia based on land value.

Review of Financials

Production revenues in line with expectations: Total production in Q1-2007 from well A2 was 324 mmcf (TSU's 50% share: 162 mmcf), or 3.5 mmcf/d. Production revenues in Q1-2007, were \$1.12 million. Since the company started generating revenues only in March 2006, revenues in Q1-2006, are not comparable to Q1-2007. Revenues in Q1-2006 were \$48,911. Based on a slight delay in the development schedule in the Beaver River field, we have revised our production and revenue forecasts for FY2007, and FY2008, downward. The chart on the next page shows our revised production and revenue forecasts for FY2007 and FY2008.



Our revised revenue forecasts for FY2007, and FY2008, are \$5.22 million (production: 346 bpd) and \$48.44 million (production 3,285 bpd), respectively, compared to our previous forecasts of \$8.78 million (production: 594 bpd) and \$61.49 million (production: 4,083 bpd).

Processing and royalty fees in Q1-2007 were \$0.58 million (50.3% of revenues). Royalty fees in Q1-2007 were \$0.2 million (17.3% of revenues), compared to \$0.27 million (11.0% of revenues) in FY2006 (12-month period). Processing fees in Q1-2007 were \$0.38 million (\$2.36 / mcf) compared to \$1.31 million (\$3.24 / mcf) in FY2006 (12-month period).

General and Administrative Expenses: G&A expenses in Q1-2007 were \$1.42 million versus \$0.93 million in the comparable period in the previous year. G&A expenses as a percentage of sales in Q1-2007 were 122% compared to 173% in FY2006. Although G&A expenses as a percentage of revenues in Q1-2007 were lower than FY2006, they were higher than our annual estimates. Additional costs related to obtaining a listing on the Oslo Stock Exchange were one of the factors that led to the increase in G&A expenses YOY. We have raised our forecasts for G&A expenses as a percentage of revenues in FY2007, but have maintained our estimates in FY2008.

Since the company wrote-down \$12.28 million of its Beaver River assets in Q4-2006, depletion expenses as a percentage of production in Q1-2007 were significantly lower. As a result, we have significantly lowered our forecasts for depletion expenses.

EPS Estimates: EBIT in Q1-2007 was (\$1.90) million compared to (\$2.19) million in the comparable period in the previous year. Although EBIT was negative in Q1-2007, the company ended up with a net profit of \$5.04 million (eps: \$0.04) in Q1-2007, compared to a net loss of \$2.00 million (eps: -\$0.02) in Q1-2006. The company recorded a future income tax recovery of \$6.82 million, as the company renounced \$20 million of flow through

financing to investors in January 2007 (TSU's share capital has been reduced by the same amount).

Our revised forecasts for FY2007, and FY2008, after accounting for the expected gain on sale of PNG assets of \$12.42 million, are net income of \$8.81 million (eps: \$0.04) and a net loss of \$4.94 million (eps: -\$0.02), respectively. Our previous forecasts were net losses of \$19.19 million (eps: -\$0.08) and \$9.10 million (eps: -\$0.03), respectively. Our forecasts changed primarily due to future income tax recovery, gain on sale of assets and lower depletion expenses.

Cash Flows: Operating cash outflows in Q1-2007 were \$0.50 million versus \$0.85 million in Q1-2006. The company invested \$12.47 million on its properties in Q1-2007, versus \$13.12 million in Q1-2006. In our previous report, we had estimated TSU to spend a total of \$64 million in FY2007, and \$32 million in FY2008. Due to the slight delay in the previously proposed exploration and development program, and the transfer of ownership of licenses in PNG, we have lowered our estimates of CAPEX to \$37 million in FY2007, and \$30 million in FY2008. Note that this estimate will change if the company decides to farm out any of its properties.

Cash and Liquidity: At the end of Q1-2007, the company had cash and working capital of \$47.33 million and \$38.60 million, respectively, versus \$17.02 million and \$4.54 million at the end of FY2006. TSU's cash position significantly improved after a \$46.6 million brokered private placement (completed in April 2007) of 76.4 million units (each unit consists of one common share and one share purchase warrant) at a unit price of \$0.61. TSU continues to be debt free. The table below shows the company's cash and liquidity position.

	2005	2006	2007-Q1	2007E	2008E
Cash	32,132,079	17,019,841	47,330,332	12,973,752	5,932,182
Working Capital	23,026,537	4,540,164	38,600,568	8,246,872	283,969
Current Ratio	3.24	1.33	4.97	1.98	1.02
Debt	-	-	-	-	-
Debt / Capital	-	-	-	-	-

Stock Options and Warrants: At the end of Q1-2007, the company had 83.67 million warrants outstanding with a weighted average exercise price of \$0.71. All warrants are currently 'out-of-the-money'. About 76.42 million of these warrants (which were issued in the recent financing) will mature in December 2007 (exercise price of \$0.61).

The company also had 6.14 million stock options outstanding with a weighted average exercise price of \$1.75, and maturity periods between August 2007, and January 2012.

Conclusion: Based on our revised forecasts, we believe the company will have to raise \$15 million in FY2008 to fund its revised capital budget program. There is a possibility that the company could raise up to \$46.62 million by the end of this year, if the 76.42 million warrants outstanding (exercise price of \$0.61) that mature in December 2007 are exercised. (As of July 12, 2007, TSU was trading at \$0.57). If all these warrants are exercised, we

believe the company will revise their CAPEX estimates upward, and speed up their development programs in FY2008.

Contingent Liabilities

Legal proceedings against High Arctic Energy Service: In May 2007, High Arctic Energy Services LP (TSX: HWO) filed a statement of claim against TSU in the amount of \$14.57 million for drilling services provided on the A7 well on the Beaver River property. TSU has filed a statement of claim against High Arctic for breaching their Integrated Project Management (IPM) agreement by incurring significantly higher costs than what TSU had agreed to. TSU has already accrued (capitalized) \$6.65 million of this amount in its latest financial statements. The company is hoping to defend the claim, while pursuing its own claim.

Statement of claim filed (in 2003) by a potential acquirer: TSU is one of nine defendants in a statement of claim filed by one of the potential acquirers (in 2003) of certain properties in Ukraine. TSU had terminated a purchase contract, as the potential acquirer was not capable of arranging financing for the acquisition. The claim is for \$3.08 million and interest and punitive damages of \$0.2 million against the nine defendants. We do not know at this time whether all nine defendants have equal liability.

Valuation

Valuation based on Net Asset Value (NAV): The table below shows a summary of our revised valuation. Although our revised NAV estimate of the company's properties changed little, a significant increase in working capital (due to lower CAPEX in 2007) led to an increase in our fair value estimate from \$0.99 per share to \$1.09 per share.

Valuation Summary		
	Value per share	% of Total
Beaver River Field	\$0.21	23.2%
Ukraine	\$0.35	38.1%
PNG	\$0.09	9.8%
Armenia	\$0.03	3.5%
Working Capital	\$0.23	25.5%
NAV	\$0.91	100.0%
Premium	20%	
Fair value per share (diluted)	\$1.09	

We have valued the properties in PNG based on the recent LOI signed with Surge Resources.

Our **revised comparables valuation** on the company is shown on the next page. Like our valuation based on NAV (presented above), our comparables value estimate of the company increased from \$1.53 per share to \$1.58 per share, due to the increase in working capital.

	Company	Symbol	Enterprise Value (C\$)	Risked Resource (mmboe)	EV/boe
1	Cardinal Resources	CDL	56,978,929	24.3	2.3
2	Transeuro Energy Ltd.	TSU	72,281,079	22.4	3.2
3	Revus Energy	REV	413,554,713	70.0	5.9
4	Europa Oil and Gas	EOG	35,904,955	4.4	8.1
5	Zapata Energy	ZCO	108,531,571	8.3	13.1
6	Questerre Energy	QEC	156,507,061	10.0	15.6
7	Petrobank Energy and Resources Ltd.	PBG	2,357,900,362	112.6	20.9
8	JKX Oil and Gas	JKX	1,076,271,008	48.4	22.2
9	PA Resources	PAR	1,856,283,040	68.7	27.0
10	Iteration Energy Ltd.	ITX	388,955,378	8.3	47.1

Average **16.6**

Fair Value of TSU **\$1.58**
(diluted)

As shown in the table, TSU continues to be undervalued compared to eight of nine comparables that we have used in the analysis.

Rating

TSU's average fair value has increased from \$1.26 to \$1.34. However, we would like to wait and watch the company's performance in the next quarter before we make any changes in our fair value estimate. Hence, based on our valuation models and review of the company's latest financials, we reiterate our BUY rating, and maintain our fair value estimate on TSU at \$1.25 per share, which reflects an upside potential of 136% from current price levels.

Risk

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

- The company is exposed to all risks associated with any other exploration and production company.
- Excluding the Beaver River project, all the other projects possess exploration risk. Success of the higher risk projects will depend heavily on the results of the exploration and development program in FY2007.
- Access to capital is very crucial to be able to continue pursuing exploration and development programs.
- Volatility in commodity prices - As revenues are directly related to commodity prices, growth and profitability of TSU will depend heavily on future natural gas and oil prices.
- Country Specific Risks – Since TSU has projects in 4 different countries, the company will be exposed to country specific risks, including political, sovereign, legal and security risks.

Appendix

Transeuro Energy Corp. - Income Statement (in C\$)

	2006	2007E	2008E
Gas Revenue	2,461,489	5,218,106	48,444,375
Royalties and Processing Fees	1,583,757	3,683,259	21,387,188
Gross Profit	877,732	1,534,848	27,057,188
Expenses			
General and Administrative	4,264,258	4,696,296	14,533,313
Depletion	8,159,972	5,446,875	13,795,833
Stock-based Compensation	3,794,711	2,348,148	3,391,106
Accretion of ARO	43,060	78,272	726,666
Write-off of Oil and Gas Properties	12,276,717	-	-
Write-off of Deposit Paid	1,074,521	-	-
Loss Before Other Items	(28,735,507)	(11,034,743)	(5,389,730)
Taxes	(3,027)	6,822,972	-
Foreign Exchange	29,312	-	-
Gain on sale of PNG assets		12,424,388	
Interest and Other Income	1,023,702	595,694	454,081
Net Income for the Period	(27,685,520)	8,808,312	(4,935,649)
Loss per Share	(0.23)	0.04	(0.02)

**Transeuro Energy Corp. - Balance Sheet
(in C\$)**

	2005	2006	2007E	2008E
Assets				
Current Assets				
Cash	32,132,079	17,019,841	12,973,752	5,932,182
Oil and Gas Receivables	17,801	-	521,811	1,453,331
GST and other Receivables	1,062,914	929,735	2,087,243	4,844,438
Prepaid Expenses and Advances	95,056	186,284	1,043,621	2,422,219
	33,307,850	18,135,860	16,626,426	14,652,169
Parts and Supplies Inventories		293,006	640,887	2,566,463
Restricted Cash - Flow through		-	-	-
Work Commitments Advanced	988,586	256,346	736,652	2,138,719
Reclamation Deposits	159,640	1,289,804	1,289,804	1,289,804
Goodwill (sale of PNG assets)			12,424,388	12,424,388
Oil and Gas Properties	47,500,722	76,014,549	94,492,062	110,696,229
Property, Plant and Equipment	379,493	2,601,869	5,023,597	6,796,932
	82,336,291	98,591,434	131,233,816	150,564,703
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Liabilities	9,999,223	13,595,696	8,379,554	14,368,200
Demand Loan Payable		-	-	-
Due to Related Parties	282,090	-	-	-
	10,281,313	13,595,696	8,379,554	14,368,200
ARO	284,429	484,811	371,594	258,378
Future Income Tax Liability		5,648,865	8,591,520	8,591,520
Finders Fee Payable	69,000	-	-	-
	10,634,742	19,729,372	17,342,668	23,218,098
Shareholders' Equity				
Share Capital	72,506,950	100,856,407	124,729,033	139,729,033
Contributed Surplus	376,930	6,873,506	9,221,654	12,612,760
Deficit	(1,182,331)	(28,867,851)	(20,059,539)	(24,995,188)
	71,701,549	78,862,062	113,891,148	127,346,605
Total Liabilities and S.E	82,336,291	98,591,434	131,233,816	150,564,703

Transeuro Energy Corp. - Cash Flow Statement
(in C\$)

	2006	2007E	2008E
Operating Activities			
Loss for the Period	(27,685,520)	8,808,312	(4,935,649)
Non-Cash Items:			
Stock-based Compensation	3,794,711	2,348,148	3,391,106
Accretion and Amortization	43,060	78,272	726,666
Write-offs	13,351,238		
Gain on sale of PNG assets		(12,424,388)	
Income Tax Expense	3,027	(6,822,972)	
Depletion	8,159,972	5,446,875	13,795,833
	(2,333,512)	(2,565,754)	12,977,956
Change in Non-Cash Working Capital Items:			
Oil and Gas Receivables	17,801	(521,811)	(931,521)
GST and Other Receivables	133,179	(1,157,508)	(2,757,195)
Prepaid Expenses and Advances	(81,637)	(857,337)	(1,378,598)
Due to Related Parties	(282,090)	-	-
Accounts Payable and Accrued Liabilities	(234,670)	(5,216,142)	5,988,646
	(447,417)	(7,752,797)	921,333
	(2,780,929)	(10,318,551)	13,899,289
Investing Activities			
Oil and Gas Properties	(39,169,497)	(37,000,000)	(30,000,000)
Purchase of Property, Plant and Equipment	(3,453,254)	(2,500,000)	(2,500,000)
Cash Received from Purchase of Subsidiary	50		
Reclamation Deposits	(1,130,164)		
Restricted Cash			
Parts and Supplies Inventories	(293,006)	(347,881)	(1,925,575)
Work Commitments Advanced	732,240	(480,306)	(1,402,067)
	(43,313,631)	(40,328,187)	(35,827,642)
Financing Activities			
Shares Issued for Cash (net)	30,982,322	43,771,210	15,000,000
Loan Payables		-	-
Future Income Tax Liability		2,942,655	-
Reclamation Liability & Finders Fee		(113,217)	(113,216)
	30,982,322	46,600,648	14,886,784
Increase(decrease) in Cash	(15,112,238)	(4,046,089)	(7,041,570)
Cash (BOP)	32,132,079	17,019,841	12,973,752
Cash (EOP)	17,019,841	12,973,752	5,932,182

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.

Disclaimers and Disclosure

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