

West High Yield Resources Ltd. (TSXV: WHY) - Initiating Coverage – Magnesium Resource in Rossland Mining Camp, BC

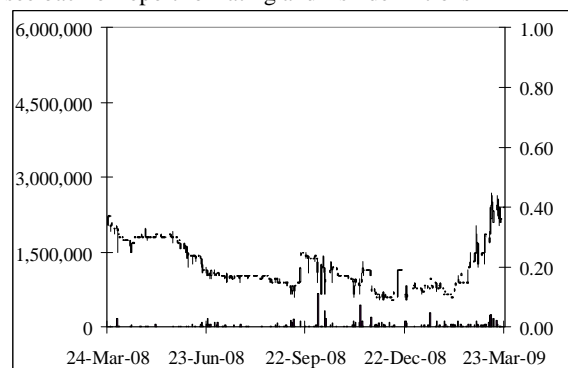
Sector/Industry: Junior Exploration

www.whyresources.com

Market Data (as of March 24, 2009)

Current Price	\$0.395
Fair Value	\$1.57
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	\$0.09 - \$0.45
Shares O/S	40.83 mm
Market Cap	\$16.13 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	5.78
YoY Return	6.8%
YTD TSXV	-62.5%

*see back of report for rating and risk definitions



Investment Highlights

- West High Yield Resources Ltd. (“WHY, the company”) holds 6,220 hectares of mineral claims and crown grants in the Rossland Mining camp of southern British Columbia.
- The company recently released an NI 43-101 resource estimate for the property stating measured + indicated resources of 39.8 million tonnes grading 23.1% Mg equating to 9.16 million tonnes of contained Mg.
- Mineralization remains open in all directions.
- Preliminary metallurgical tests indicate acid leach recovery of 78.6% of the contained Mg.
- The deposit is amenable to open pit mining methods.
- At the end of Q3-2008 (end of September 2008), the company had \$1.12 million in cash and cash equivalents. We estimate cash will last for another 10 – 12 months.

Risks

- The primary risks WHY faces are the dependency a future operation has on long term prices of magnesium metal, energy and re-agent prices as well as capital costs.

Key Financial Data (FYE - December 31)

(C \$)	2007	2008 9 mo
Cash + Cash Equivalents	2,680,536	1,120,215
Working Capital	2,703,304	1,177,999
Mineral Assets	1,406,859	1,438,970
Total Assets	4,429,126	2,982,010
Net Profits	(2,239,560)	(1,559,341)
EPS	(0.06)	(0.04)

West High Yield Resources Ltd. is engaged in the acquisition, exploration and development of mineral resource properties in Canada. The primary objective is to develop magnesium and gold on its Rossland Mining camp properties located near Rossland, B.C. The property has an NI 43-101 resource estimate stating measured + indicated resources of 39.8 million tonnes grading 23.1% Mg.

Company Overview	West High Yield Resources Ltd. is a TSX Venture-listed exploration company engaged in the acquisition, exploration and development of mineral resource properties in Canada. The company's current objective is to locate and develop economic Magnesium, Cobalt, Nickel, and Gold, on its 6,220 contiguous hectares of mineral and crown granted claims in southeastern British Columbia named the Rossland Property. The primary claims are the Frank SR 3, and Hidden Valley 3 claims, which host the current 43-101 magnesium resource. In 2008, the company also explored for gold and related minerals on the IXL, Midnight, OK and Golden Drip crown grants.
Corporate History	West High Yield Resources Ltd. commenced operations as a private company in August, 2003, for the purpose of acquiring mineral resource properties in British Columbia. On July 27, 2006, the company completed its initial public offering of securities.
Mining Outlook-British Columbia	<p>British Columbia is a province rich in mineral resources, mining expertise, and hosts a positive business environment with established infrastructure. Encompassing the largest part of the Canadian Cordillera (a mountain belt rich in minerals and coal), the province has abundant resources of copper, gold, silver, lead, zinc, molybdenum, and coal. The BC government, via the Ministry of Energy, Mines and Petroleum Resources, encourages the development of the province's mineral resources while maintaining environmental integrity and protecting the interests of workers and the public through regulations, policies and programs. In addition, the province provides good infrastructure for mining including a sufficient supply of low-cost power, established transportation systems, and modern ports: Vancouver is a global mining center providing a strategic connection to Asia-Pacific markets.</p> <p>However, obtaining mining permits in British Columbia may not be easy due to stringent environmental assessment processes that require extensive public participation (such as First Nations, local governments and representatives from neighbouring jurisdictions of a proposed project) throughout the review process. In addition, it is often inefficient when both provincial and federal agencies are involved, and streamlining of federal and provincial processes may be needed to improve the mining permitting process in BC.</p> <p>Discussions with management have indicated that no issues regarding First Nations are anticipated. In addition, the Rossland area has a strong history of mining which is likely to reflect positively on the permitting process.</p>
Magnesium Deposits	<p>The magnesium deposit being explored by West High Yield relates to an obducted ophiolite: a piece of the seafloor forced up to the surface of the earth's crust. Normally at a subduction zone, the seafloor is forced downward where it melts and returns to the mantle. Occasionally, large chunks are forced upward rather than downward resulting in their appearance at or near surface. Ophiolite (also called ultramafic) formations are not exactly common worldwide; however, several have been identified throughout British Columbia.</p> <p>The high magnesium content of the mineral constituents, such as Olivine and its alteration product Serpentine, that compose ultramafic rock, are the reason these formations may be economically mineable.</p>

The Cogburn Magnesium project, an ultramafic deposit similar to the WHY Resource project, is located near Hope, British Columbia. A production feasibility study was completed on Cogburn in 2002, however, it never progressed past the permitting stage. Citing a 2007 statement from John A Chapman, the project manager, to the BC Environmental Assessment Office, the environmental assessment activities and thus the project itself, were put on hold due to the following factors:

- Instability in the labour and materials markets;
- Weak magnesium prices;
- Uncertainty of Canada's CO₂ emissions standards, and;
- Power shortage issue in British Columbia

It was also indicated that the estimated earliest possible commencement of project activities would be after the 2010 Olympics. With regards to the WHY project, the first two points are accounted for in our valuation model, and at this time, we do not expect the last two to affect the project; particularly, due to the proximal power infrastructure.

Location is another critical factor in exploiting ultramafic magnesium deposits. The common processing option in North America is electrowinning which requires a great deal of energy, and in combination with an open pit operation, also a great deal of space.

Other sources of Magnesium include asbestos tailings, salt water brine and dolomite/magnesite deposits. Asbestos tailings are also processed by electrowinning. In Utah, magnesium chloride brine is used in the production of magnesium metal. The most common deposits currently being exploited in China are dolomite and magnesite deposits. These deposits are primarily processed by thermal reduction, which also uses a great deal of energy, particularly through heating of the ore to aid in separating the chemical constituents.

Rossland Property

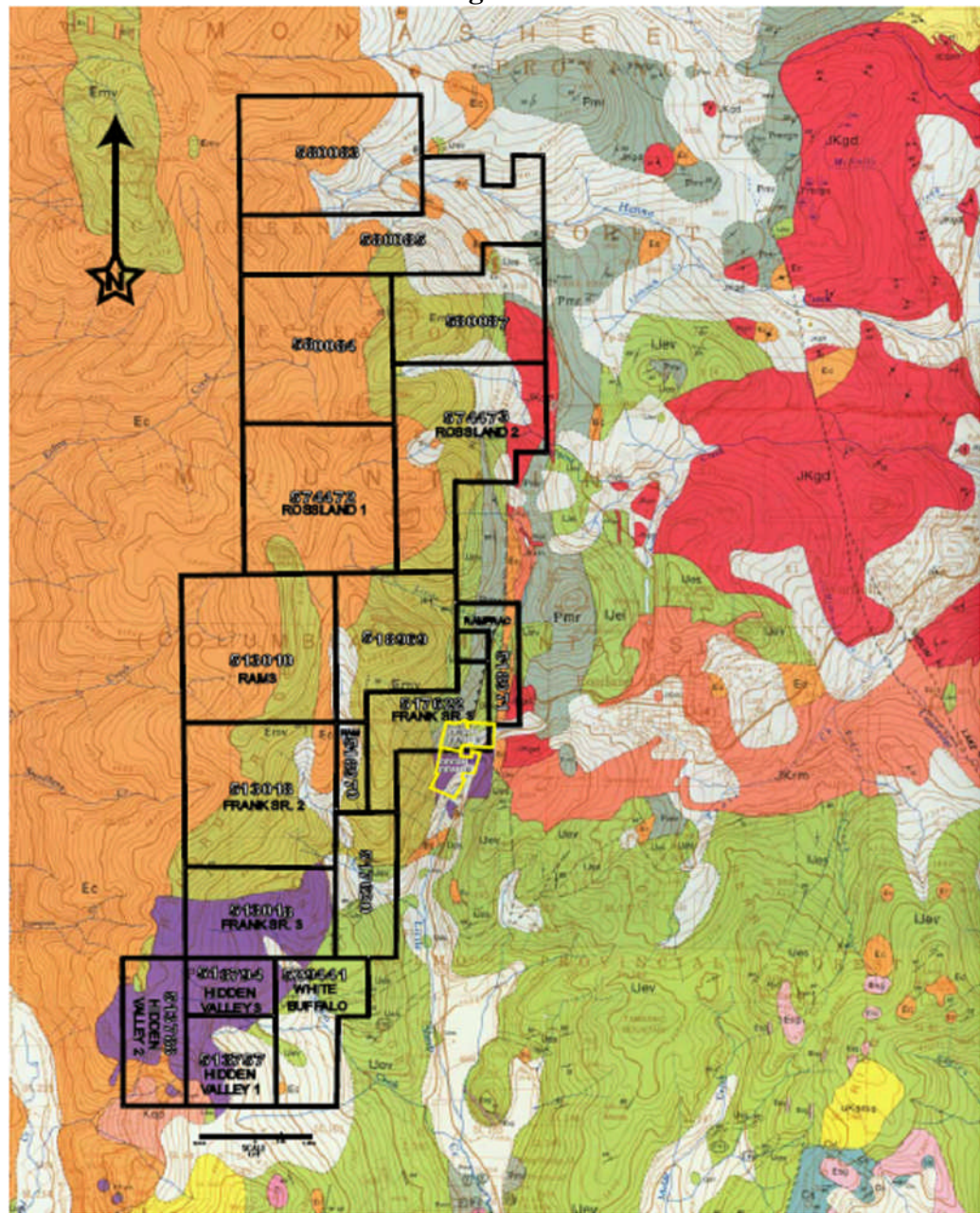
Property Overview: The Rossland property is composed of 19 contiguous mineral claims and eight crown granted claims covering a total of 6,220 hectares. The Frank SR 3 and Hidden Valley 3 claims are located in the southwestern portion of the property enveloping the Alaska type ultramafic complex which plays host to the magnesium mineral resource. Together, the Frank Sr. 3 and Hidden Valley 3 claims are dubbed the Record Ridge South property.

Crown grants located on the eastern portion of the property host the OK, IXL, Midnight and Golden Drip claims on which the company is targeting gold and silver mineralization.

This report addresses the Record Ridge South property and crown grants separately, however, use Figure 1 below to reference the location of Frank SR 3, Hidden Valley 3 (Record Ridge South) and the crown grants. The crown grants are outlined in yellow.

As can be seen in Figure 1, the ultramafic body (purple) is quite large. As is discussed below (and depicted in Figure 2 below), only a small portion of the formation has been drill tested thus far.

Figure 1



Source: West High Yield Resources Ltd.

Record Ridge South

Ownership: The Hidden Valley 3 claim was originally located by WHY on June 2, 2005, the Frank SR 3 claim on Jun 16, 2007, and are in good standing until February 28, 2019, and February 28, 2018, respectively. The company has 100% ownership in the property mineral rights with no underlying royalties.

Historic Exploration/Production: The property is part of a larger claim block that was minimally explored by previous owners through the 1970's and 1980's, and has not seen

historic magnesium production. Exploration has involved magnetometer, induced polarization and EM surveys, geochemical soil sampling and trenching. The same interest that exists in magnesium today was not present in the 1970's and 80's, nor did such advanced processing technologies exist.

Location/Accessibility: The Record Ridge South property is located 7.5 km west, 10.5 km by road, of Rossland, B.C., and approximately 400 km east of Vancouver, B.C. In addition, the U.S. – Canada border lies approximately 8 km south.

The property is accessible via SUV or truck during the field season, which spans from early May to early November. The drill site access road exits north off the Old Rossland-Cascade Highway, a maintained gravel road. The network of drill roads are maintained and four-wheel drive accessible.

The drill sites and exploration area are located on the moderately steep, southeast facing slope of the northeast trending Record Ridge.

Resources/Infrastructure: The area has a history of mining and the nearby towns of Rossland and Trail, B.C. are expected to have adequate local resources. Trail has an airstrip with commercial service and is serviced by the Canadian Pacific Railway. Both towns have sufficient short term accommodations.

The Waneta Plant is located 7 km away, the Brilliant hydroelectric plant is located 25 km away, and the company's property is traversed by electrical transmission lines. A lead and zinc refinery and smelter are run by Teck Cominco (NYSE: TCK) in Trail, evidence of the abundant hydro electrical power available in the area.

Sufficient water for processing would be available from the numerous surface and underground water sources throughout the region, and the nearest port is Canada's busiest, the Port of Metro Vancouver.

Geology and Mineralization: Regionally, the geology of British Columbia is characterized by millions of years of both extensional and compressional plate tectonics resulting in the deposition and deformation of numerous igneous, sedimentary and metamorphic formations.

More locally, the Rossland Property area is located within the Quesnel Terrain of the Intermontaine Belt. Jurassic (180ma) age volcanic rocks have been predominately intruded by Tertiary aged volcanic and plutonic rocks. The magnesium resource itself is hosted in the Record Ridge Ultramafic body, a Paleozoic aged unit with characteristic serpentinization alteration. Chemically, ultramafic rocks by definition have high magnesium content. The dominant mineral constituents of this body would have already contained the vast majority of the magnesium available, and the more recent Jurassic and Tertiary igneous activity would have merely served to influence structure and alteration.

The ultramafic body covers a surface area of approximately 6 km². However, thus far, only two small tabular shaped zones of higher magnesium have been tested. The northwest zone

is approximately 280 m in diameter, and is approximately 130 m thick, while the southeast zone is approximately 325 m in diameter with an average thickness of 120 m.

Metallurgy: The mineral processing of magnesium usually includes six steps beginning with crushing and grinding of the ore. Intermediary steps include hydrochloric leaching, separating and dehydrating. The final step before casting – electrowinning the magnesium – is one of the most energy and capital intensive steps. The project economics will be highly dependent upon the costs associated with processing which will far outweigh the anticipated mining costs.

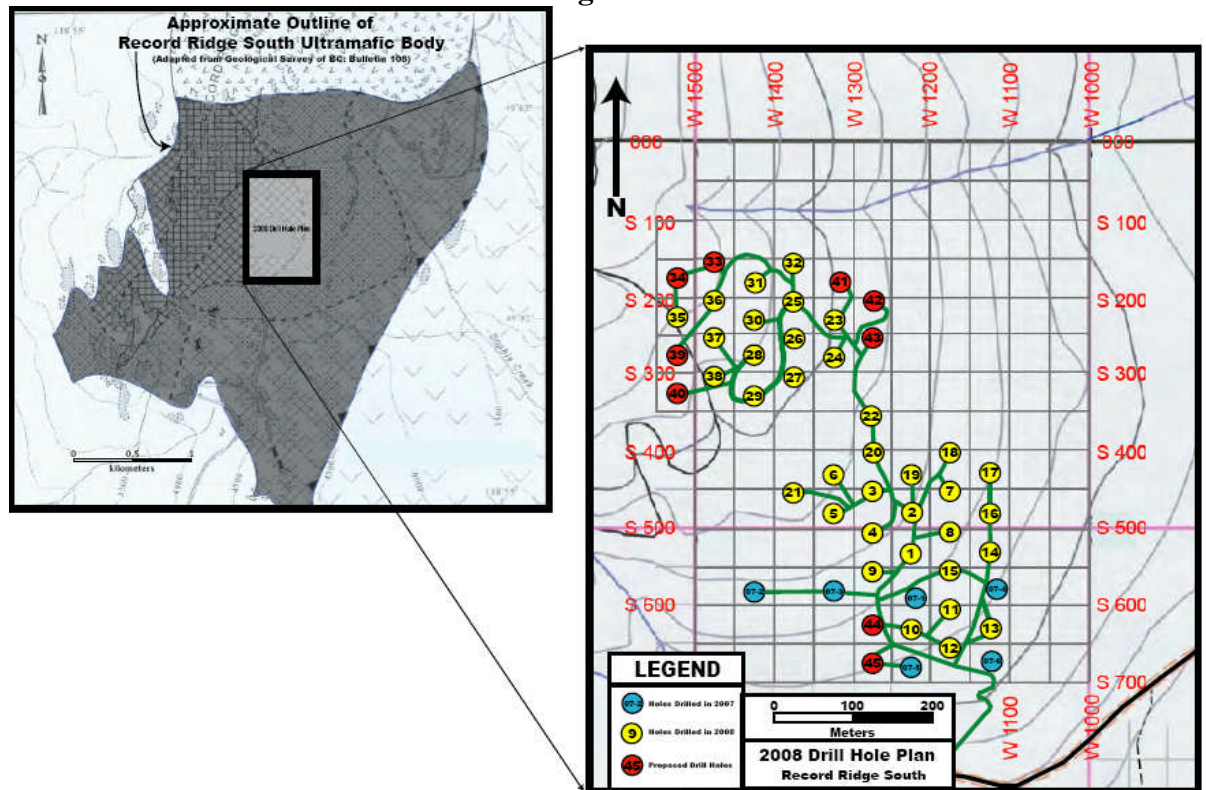
Preliminary metallurgical testing has been completed by Met-Solve Laboratories Inc. of Burnaby, B.C. Testing concluded that using a hydrochloric acid leaching method could liberate 78.6% of the magnesium from the ore in the form of magnesium chloride (MgCl₂). **The leaching stage of mineral processing is often regarded as the most critical step with regards to final metal recovery and we are encouraged by these preliminary results.**

It is important to note at this stage that the material utilized for testing ranged from 25.8% to 27.4% Mg, grades which are slightly higher than the average deposit grade of 23.1% Mg. Further tests are likely to use lower head grades which could negatively affect results. Also of note is the quantity of acid required in the leaching stage. Hydrochloric leaching required 1,814 kg/tonne of acid to achieve optimal recovery. While some of the acid will be recycled, we expect this represents a considerable cost to the operation and expect the company will pursue contracts to ensure supply.

WHY Exploration: Significant exploration on the ultramafic body by the company pertains largely to the two phase drill program conducted in 2007 and 2008. 51 diamond core holes totaling 6,340 m were completed on the body, centred on the two tabular bodies mentioned above under *Geology and Mineralization*. To date, only vertical drill holes have been completed having an average depth of 124 m.

Figure 2 shows the approximate location of all 51 drill holes. The image is from September, 2008, and the legend indicates some drill holes are proposed. To date, any remaining proposed holes have been completed.

Figure 2



Source: West High Yield Resources Ltd.

Resource Estimate: The resource estimate, and coinciding 43-101 technical report, was completed by SRK Consulting of Lakewood, CO, USA (“SRK”). In addition to the mineral resource, SRK provides a conceptual mining plan outlining an open pit operation that would supply ore to a magnesium processing facility constructed by the company.

SRK applied a block model utilizing block dimensions of 15 by 15 by 5m based on current drill hole spacing, and a potential open pit smallest mining unit. Results of the resource calculation are displayed below in Table 1.

Table 1

Resource Category	% Mg Cut-off	Total Mt	% Mg Grade	Contained Mg (Mt)
Measured	12	15.7	23.1	3.62
Indicated	12	24.0	23.1	5.54
M&I	12	39.8	23.1	9.16

Source: West High Yield Resources Ltd.

This is a very positive initial resource estimate for the company. The delineated areas technically remain open in all directions and to depth. In addition, only a small portion of the overall ultramafic body has been drill tested. We feel the challenge going forward will be to identify additional high grade drill targets to maximize the value of future drilling programs.

Current Status/Development Timeline: The company has retained the services of SRK to complete scoping and pre-feasibility studies which we anticipate in Q1-2010.

In addition to these studies, the company anticipates completing step out drilling during the 2009 field season to expand resources. A permit to complete a 10,000 kg bulk sample has been granted which we also expect will be performed during the 2009 field season.

Crown Grants

The company also has an interest in gold and silver mineralization on the property which they are exploring for within the IXL, Midnight, OK and Golden Drip crown grants at the historic Midnight Mine. These properties have seen small scale historic gold production from narrow but very high grade veins.

Ownership: The company optioned the crown grants from Matovich Mining Corporation in 2004, and holds 100% of surface and mineral rights to the Midnight and IXL claims, 51% of surface and mineral rights to the OK claim, and 100% of the Golden Drip claim.

Historic Exploration/Production: From 1895 to 1964, the IXL, Midnight and OK claims together produced approximately 30,000 ounces of gold from 11,000 tonnes grading approximately 3 oz/t.

From 1965 onward, considerable underground work was completed by the various owners of the property in addition to intermittent production that carried through to the 1990's.

Geology and Mineralization: The properties have the potential to host several different types of deposits including:

- Quartz veins, narrow and erratic veins with high grade gold values
- Copper-Gold quartz-sulphide veins
- Stockworks and breccias in felsic intrusions carrying molybdenum values
- Skarn copper, magnetite, polymetallic bodies
- Serpentinized andesite

Current Status: In 2008, the company completed 9 NQ size drill core holes totaling 680.1 m on the IXL and Midnight claims. Highlights of the program are summarized below in Table 2.

Table 2

Claim	Hole #	Au (g/t)	Ag (g/t)	Cu (%)	True Width (m)
IXL	IXL08-1	5.42	151.0	1.26	0.18
	IXL08-1	6.22	119.0	1.23	0.10
Midnight	MN08-1	35.78	1.8	-	1.00
	MN08-1	0.30	7.7	-	4.70
	MN08-1	48.39	30.0	-	0.50

Source: West High Yield Resources Ltd.

The 2008 program successfully intersected high grade gold the company was exploring for

albeit over rather narrow intercepts. A 2009 program is in the planning stages and we feel it will be successful if the company manages to intersect wider intervals of the high grade mineralization.

Management

Frank Marasco Jr. – President, CEO, Director

Mr. Marasco is the founder of West High Yield Resources. Mr. Marasco is also currently President, Director, of Big Mountain Development Corp. Ltd. He was a founder and director of Wave Form Energy Oil and Gas, now Second Wave Petroleum and co-founded Pacific Cascade Minerals, both publicly traded companies. Mr. Marasco constructs new business, co-ordinates lawyers, accountants and all licensed professionals in the process of developing these new businesses and IPO's. Mr. Marasco provides strategic management for the businesses. He is experienced in financing matters and the continuous growth of his business; he has personally assisted in and organized successfully the negotiation purchases for 25 major real-estate assets. He has given companies strategic insight in putting deals together.

Craig Robson – V.P. Corporate Development

Mr. Robson has over 30 years of experience in the stock market. This experience included involvement with public company management, and with regulatory, compliance, and risk management aspects of the publicly traded markets. Mr. Robson began his career as a stock broker in Vancouver in 1971. By 1980 he had joined the B.C. Securities Commission (then the Superintendent of Brokers, Real Estate and Insurance) as an investigator. In 1987 Mr. Robson began consulting to companies in all stages of going public. Mr. Robson joined the brokerage firm of C.M. Oliver and Company Ltd. in December 1993 and went on to become its Director and Sr. Vice President of Compliance and Risk Management. Subsequent to C.M. Oliver's take over, Mr. Robson continued to act as a consultant and director or officer of companies in both the private and public stages.

Mr. Dwayne Vinck – CFO

Mr. Vinck is an independent financial consultant and Chartered Accountant with over 20 years of business experience including various financial controllership roles with manufacturing and oilfield services businesses and more recently Sarbanes Oxley and Canadian internal financial controls consulting. Mr. Vinck is CFO and a Director of Unitech Energy Resources Inc. since May 2007 and a director of Sulfur Recovery engineering since January 2007. Mr. Vinck is a Chartered Accountant (1990) and a member of the Institute of Internal Auditors and has a Bachelor of Commerce degree from the University of Manitoba.

Exploration Team

Hun Kim – P.Geo, P.Eng

Hun Kim is a registered member in good standing with the Association of Professional Engineers and Geoscientists of British Columbia and Life Member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta. He is a graduate of Seoul National University holding a Bachelor of Applied Science degree and completed one year of post graduate studies for a Master of Science. He has practiced his profession for 32 years in Canada, United States, Mexico, Africa, China and Korea, including a professional service as a mine evaluation geologist for 7 years in the United Nation's Far East Project per U.S. Agency of International Development. He assessed over 200 metallic and non-metallic

mines and properties including 104 precious metal deposits and five industrial mineral deposits. During the period from 1969 to 1977, he has been a Mine Geologist at Granby Mining Company Phoenix Open Pit Mine, Grand Fork, B.C. He has also been Chief Mine Geologist supervising four geologists at Granisle Copper Open pit Mine about 200 km west of Prince George, B.C. He was Project Engineer and Exploration Manager with Granby Mining Corporation, Vancouver, B.C. and Zapata Granby Corporation (Houston, Texas). He has been a geological engineer of B.C. Hydro and Power Authority Engineer Group, Vancouver head office from 1977 to 1983. Since 1984, he has continued his geological professional works as independent consultant domestically and internationally to the present.

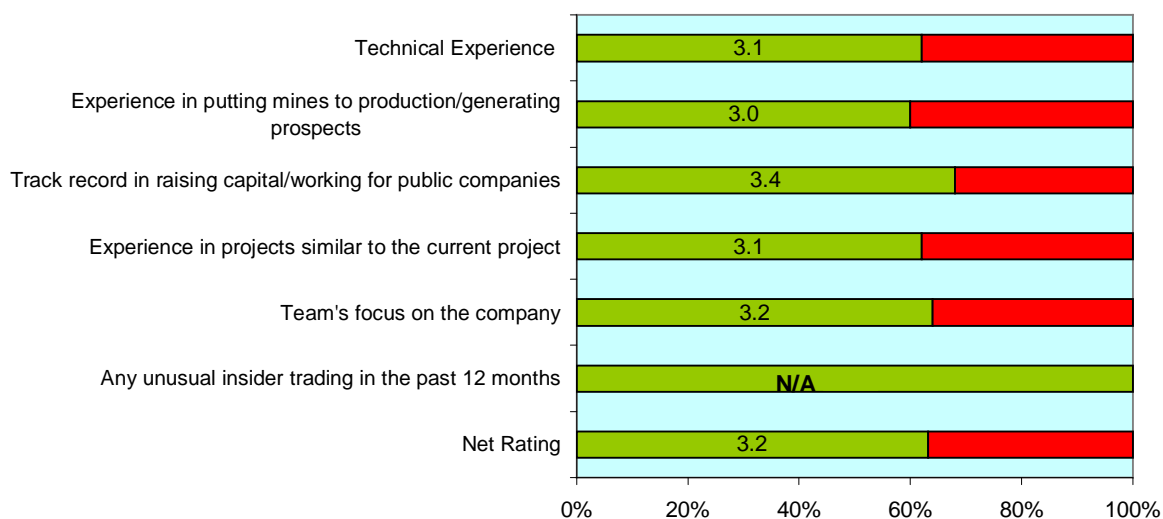
Cory Peck – Junior Geologist

Cory is a junior geologist who came to West High Yield Resources in the Spring of 2007. He studied at the University of Calgary, where he received a B.Sc. in Geology, with a minor in earth science. He has extensive training in both the field and lab settings. His skill set encompasses all aspects of geology, geophysics and geography, with particular emphasis on geotechnical logging, mineralogy and mapping. He currently resides full time in Rossland, B.C.

Management Rating

We believe that one of the most important aspects of a junior mining company is its management. Our management rating system is a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management's time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for WHY is 3.2 out of 5.0, which we have rated average.**

Management Rating



Source: FRC

Strength of Board

The Toronto Stock Exchange recommends that the Board of Directors of every company include independent or unrelated directors who are free of any relationship or business that could materially interfere with the director's ability to act in the best interest of the company.

An unrelated/independent director can be a shareholder. In this section, we present our strength of board rating for West High Yield Resources Ltd., which uses information available from the company's annual "Management Information Circular" to ensure that the company has an independent Board of Directors, Audit Committee, and Compensation Committee. This report also identifies any non-arms length transactions and management's compensation.

West High Yield Resource Ltd's Board of Directors is made up of 5 individuals: Frank Marasco, Jr., Warren D. Robb, Ross O. Drysdale, Patricia L. Nelson, and Ian F.T. Kennedy. None of the directors have filed for personal bankruptcy. Ian Kennedy does not hold shares in the company. The related/non-independent director is Frank Marasco, Jr., as he is an executive officer of the company and receives compensation. The Audit Committee is made up of Warren Robb, Patricia Nelson and Ian Kennedy. The company does not have a Compensation Committee.

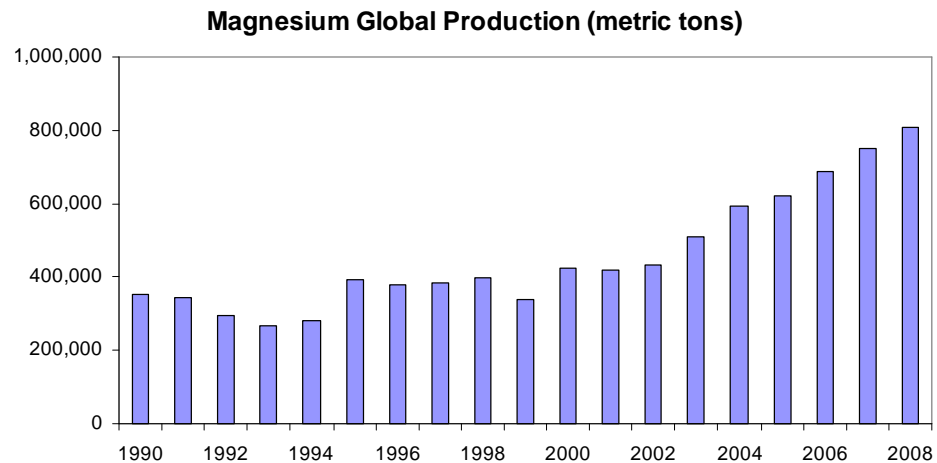
Outlook on Magnesium

Magnesium is as strong as steel and 40% lighter than aluminium. Its high strength to weight ratio, durability, resistance to impact, and casting characteristics allow it to be used for a wide range of applications. Magnesium is the third most commonly used structural metal after steel and aluminium. According to US Magnesium (the sole magnesium producer in the U.S.), in 2007, about 36% of magnesium was used in aluminium-magnesium alloys (primarily for packaging, use in beverage cans, etc.), 32% in die-casting applications (primarily for vehicle components, aerospace, power tools, computer and electronic products, etc.), 16% in iron and steel desulfurization, and the remaining for other applications.

Magnesium, when used in diecasting, helps reduce the weight of vehicles (by about 20-40% more than aluminum), leading to improved fuel economy and lower CO₂ emissions. Also, magnesium dies last longer than those with aluminum, due to its low heat content and low affinity for iron. Magnesium is also 100% recyclable, which contributes to the increasing demand for this metal worldwide. However, this characteristic also negatively impacts pricing as a portion of the demand is fulfilled by this source of supply.

The global demand for magnesium in 2007 was about 0.66 million tonnes (according to US Magnesium). China, the top consumer, accounts for about 30% of the global consumption. US Magnesium estimates global demand for the metal to increase at a compounded annual growth rate (CAGR) of 7.3% during 2007 to 2012, and pass one million tonnes in 2012. Demand in China is estimated to grow at 20% per annum, while demand in the U.S., and the rest of the western world is estimated to grow at 2% and 3.5% per annum, respectively.

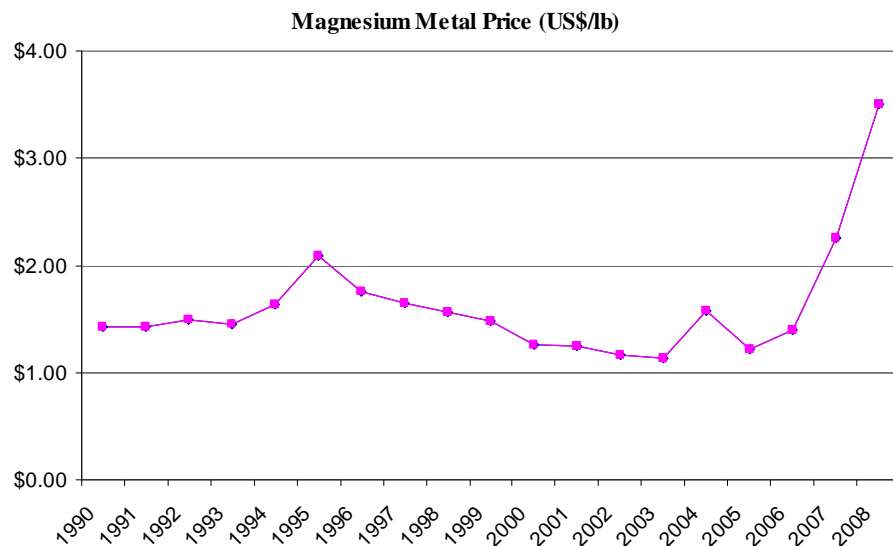
On the supply side, global magnesium production has increased by a CAGR of 4.7% during 1990 – 2008, and 8.5% during 2000 – 2008 (as shown in the following chart).



Source: USGS

China is also the top producer. In 2008, China produced about 87% of the global output. Russia, Israel, Kazakhstan, U.S. are the other major producers. According to the China Magnesium Industry & Market Bulletin, in 2008, there were about 66 magnesium smelters within China, with a total production capacity of 1.16 million tpy, up 19% YOY.

Magnesium prices – Magnesium prices had a terrific run in 2007, and 2008, as average prices increased from US\$1.40/lb in 2006, to US\$2.25/lb in 2007, and US\$3.50/lb in 2008. The following chart shows prices since 1990.



Source: USGS

Global economic slowdown and cash crunch leading to weakening demand and shutting down of several operations worldwide: The recession in developed economies and slowdown in the emerging countries, have negatively impacted the demand for magnesium, as it did for most base metals. This has resulted in a significant drop in prices since Q4-2008. As of February 2009, magnesium was trading in the US\$2.10 – US\$2.60/lb

range in the U.S., down from US\$3.40 – US\$3.65/lb in August 2008. According to the China Magnesium Industry & Market Bulletin, China's consumption fell by 40% YOY in 2008, to 0.16 million tonnes.

As a result of the weakening demand, several producers worldwide have cut/suspended their expansion plans. A few noteworthy developments in the U.S. follow:

- US Magnesium is planning to cut production and delay expansion of its magnesium plant in Rowley, UT. In February 2009, the company announced that it laid off 14% of its employees.
- Contech, LLC, a U.S. based producer of aluminum and magnesium diecastings, filed a petition under Chapter 11 of the U.S. Bankruptcy Code.
- Aleris International Inc., one of the leading aluminum sheet producers and consumers of magnesium in the U.S., filed for Chapter 11 bankruptcy protection in February 2009.
- Aluminum and magnesium diecaster Spartan Light Metal Products Inc. of the U.S., announced it would cut production and lay off employees in response to a 30% drop in diecasting orders for Q1-2009.

In addition to the above developments, in 2008, 18 magnesium plants were forced to close because their energy consumption and pollution were high (according to the China Magnesium Association).

Outlook: Magnesium producers in the West have been facing tough competition from those in China. Magnesium production in China is based on a thermal process, known as the Pidgeon process, while most of the production in the West is based on an Electrolytic Process. The lower cost of production and labor costs in China have enabled producers in China to sell magnesium at a much cheaper price than western producers. For example, magnesium prices in China in February 2009, were US\$1.32 – US\$1.34, versus US\$2.10 – US\$2.60/lb in the U.S. The significant price difference has negatively impacted several western producers. Relatively cheaper and abundant raw materials sources, access to coal/coke gas, and lower labor cost are the primary reasons why producers in China have been able to maintain lower costs than their counterparts in the West.

We believe that weakening demand and the global financial crisis, offset by a drop in supply, will keep magnesium prices soft in the short-term. We do not expect any deficit in the market primarily because global production capacity (China currently has a capacity of over one million tonnes per year) is well-above the current demand. An increase in magnesium price will encourage producers to increase production, which in turn will lead to increased supply and a drop in prices. However, over the long-term, we expect prices to stay well above the historic average price of US\$0.93/lb (during 1915 – 2008), as we expect strong long-term demand growth for the metal in diecasting applications. We believe that its unique characteristics make magnesium a not so easily substitutable metal.

Long-term price forecast - As WHY is not expecting to commence production in the near-term, our valuation on the company depends on our long-term magnesium price forecasts.

Our regression model based on magnesium prices during 1975 –2008, and several other independent variables, including the US\$, global annual mine production growth, global GDP growth, etc., gave a long-term price forecast of US\$1.54/lb. However, considering the strong long-term demand growth, we have used a higher forecast of US\$1.69/lb in our valuation models, which was the average price during 2000 – 08.

Financials

At the end of Q3-2008 (end of September 2008), the company had \$1.12 million in cash and cash equivalents. The company had working capital of \$1.18 million at the end of Q3. In the first nine months of FY2008 (ended September 2008), the company reported a net loss of \$1.56 million (EPS: -\$0.04). We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.17 million per month in the first nine months of FY2008, compared to \$0.20 million per month in FY2007 (12-month period). The following table shows the company's cash and liquidity position at the end of Q3-2008.

	2007	2008 (9 mo)
Working Capital	2,703,304	1,177,999
Current Ratio	19.8	7.2
LT Debt / Assets	-	-
Cash from financing activities	3,487,420	-
Monthly Burn Rate (incl. Exploration)	(198,892)	(173,369)

Our discussion with management indicated that the company has significantly reduced its burn rate. We estimate current cash will last for another 10 – 12 months.

Stock Options and Warrants: We estimate the company currently has 2.56 million stock options (weighted average exercise price of \$0.42) outstanding. None of the outstanding options are currently in-the-money.

Valuation

A Discounted Cash Flow (DCF) model showed that the project is not feasible at our long-term magnesium price forecast of US\$1.69/lb, an average cash-cost of US\$1.08/lb and a capital cost assumption of US\$2.5 billion. Our capital cost assumption of US\$2.5 billion is much higher than SRK's estimate of US\$1.80 billion because we used a higher mining rate of 1.6 million tpy (25 year mine life) versus SRK's 0.6 million tpy (66 year mine life). We increased the throughput rate because we believe SRK's estimate is too low to achieve favorable economics. Our cash-cost estimate of \$1.08/lb was based on studies on comparable deposits, and SRK's recently completed technical report. A summary of our DCF valuation follows.

DCF Valuation Summary	
Resource (in mm tonnes)	39.80
Grade	23.60%
Recovery	78.6%
Contained Metal (in mm lbs)	16,276
Mine Life (in years)	25
LT Mg Price (in US\$/lb)	\$1.69
Average Cash Costs (in US\$/lb)	\$1.08
Capital Costs (US\$, mm)	\$2,500
Discount Rate	11.5%
Net Present Value (C\$, mm)	-\$258

- *Discount rate – We have maintained our discount rate assumption on similar projects in Canada at 11.5%.*

Our DCF valuation is highly sensitive to our long-term Mg price forecasts and discount rates. The table below shows a sensitivity analysis.

Sensitivity				
Mg Price (in US\$/lb)	\$1.50	\$1.69	\$2.00	\$2.50
Discount Rate				
8.00%	(\$10.93)	\$8.33	\$39.74	\$90.41
10.00%	(\$16.69)	(\$1.19)	\$24.10	\$64.89
11.5%	(\$19.65)	(\$6.32)	\$15.44	\$50.54
15.00%	(\$23.71)	(\$14.04)	\$1.73	\$27.17

As shown in the table, our valuation increases to \$51 per share if magnesium trades at US\$2.50/lb in the long-term. Based on our cost and discount rate assumptions, we estimate the break-even magnesium price of the project is US\$1.78/lb.

Real options valuation - Unlike a DCF model, real options valuation models account for the volatility in commodity prices, and also management's ability to pursue or abandon projects. Since early stage mining projects can be considered as options, we used a real options valuation model to value the project as if it were an option. Our real options valuation model, using the same inputs as we used for our DCF model, gave a fair value estimate of \$1.57 per share.

Real Options Valuation			
Inputs relating to the underlying asset			
Estd. Value of Minerals if extracted today (\$, mm)			\$2,024
Annualized Standard Deviation of Mineral prices			9.3%
Capital Investment (\$, mm)			2,500
Estd. Mine Life (years)			25
Riskfree Rate			3.50%
Output			
Stock Price	\$2,024	T. Bond rate	3.50%
Strike Price	\$2,500	Variance	0.01
Expiration (in years)	25	Annualized div yield	4%
d1 =	-0.491	Value of Option (C\$, mm)	\$63.68
N(d1) =	0.312	Working Capital - Debt (C\$,mm)	\$0.31
d2 =	-0.956	No of outstanding shares (mm)	40.83
N(d2) =	0.170	Value per share	\$1.57

Conclusions & Rating

Although our DCF valuation model gave a negative NPV, our real options valuation of \$1.57 per share captures the additional value from management's flexibility to abandon or pursue the project, and volatility in commodity prices. Therefore, based on our valuation model and review of the company's projects, we initiate coverage on WHY with a BUY rating and a fair value of \$1.57 per share.

Risks

- The primary risks WHY faces are the dependency a future operation has on long term prices of magnesium metal, energy and re-agent prices as well as capital costs.
- Secondary risks include the receipt of appropriate permits, which are occasionally difficult to obtain in British Columbia.
- Access to capital and share dilution risks

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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