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Investment Analysis for Intelligent Investors

August 15, 2008

West Hawk Development Corp. (TSX.V: WHD) – Lu'an Investment; Signs MOU with Petrobas

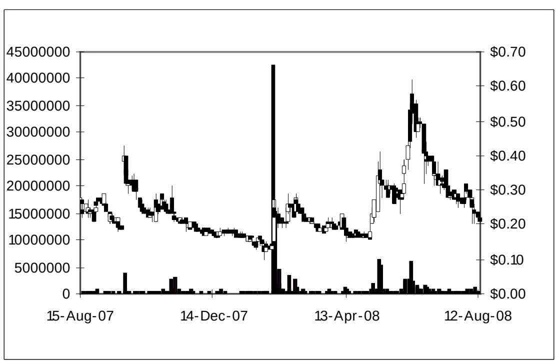
Sector/Industry: Junior Mining / Energy

www.westhawkdevelopment.com

Market Data (as of August 14, 2008)

Current Price	C$0.25
Fair Value	**C$1.03 ↓**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$0.10 – C$0.62
Shares O/S	142.60 mm
Market Cap	C$35.65 mm
Current Yield	N/A
P/E	N/A
P/B	2.55
YoY Return	-10.7%
YoY TSX	-28.3%

*see back of report for rating and risk definitions



Highlights

- WHD fulfilled the first year requirements of their agreement with Encana Oil and Gas (USA) (NYSE: ECA) by completing the first four well program at the Figure Four property.
- The first three wells are currently in production, with the fourth expected to commence production this summer. On June 12, 2008, WHD announced they signed a MOU with Petrobas to jointly develop the Figure Four property. This is highly encouraging, and if the two companies form a partnership going forward, we believe, it will significantly reduce WHD's risk, while allowing them to participate in the upside potential.
- The company has strengthened their strategic partnership with Lu'an Mining Group through an agreement to jointly develop two coal to liquids plants in China and North America.
- WHD released NI 43-101 technical reports for the Nunavut, Groundhog, and Northwest Territories properties. This allows the company to disclose historic exploration target figures determined before the implementation of NI 43-101.
- WHD has raised gross proceeds of $15.25 million from recent private placements.
- We have maintained our BUY rating on the company and lower our fair value estimate to $1.03 per share (from $2 per share).

Key Financial Data (FYE - April 30)

(in C$)	2005	2006	2007	2008 (9 mo)
Cash	120,126	1,378,613	5,727,000	161,000
Working Capital	163,985	1,352,018	2,254,000	(11,718,000)
Assets	328,228	5,680,757	27,476,000	36,446,000
LT Debt	-	-	-	-
Net Income	(533,863)	(3,012,127)	(5,864,766)	(2,227,000)
EPS	(0.04)	(0.10)	(0.12)	(0.03)

West Hawk Development Corp. (WHD) is engaged in the exploration, development and production of coal and natural gas. The properties in Oklahoma-Arkansas and the NWT have the potential for coal to gas and coal to liquids applications. West Hawk started generating revenues from its Piceance Basin natural gas production in Q3-2008.

Company Overview

West Hawk Development Corporation (WHD) has recently moved their corporate offices to Denver, Colorado. They will also maintain an office in Vancouver. The company is beginning to distinguish itself as a pioneer in coal gasification/coal to liquids technology. It has coal projects in British Columbia, the Northwest Territories, and Nunavut. Coal is still the world's most widely used and abundant source of energy. The project in NWT has the potential for coal to gas and coal to liquids applications, which is considered a more environmentally friendly use of coal. Also, the company recently entered into a letter of intent to develop an extensive coal field in Oklahoma with potential for coal gasification and coal bed methane conversion. West Hawk also has conventional natural gas production in the United States, with a farm-out agreement for the Figure Four Natural Gas Property in the Piceance Basin,that has the potential to generate near term cash flows.

United States – Natural Gas

Figure Four Property – Three wells in production; Signs MOU with Petrobas

WHD fulfilled the first year requirements of their agreement with Encana Oil and Gas (USA) (NYSE: ECA) by completing the first four well program at the Figure Four property. According to the agreement with Encana, WHD has to drill 4 wells in year 1, 6 wells in year 2, and 18 wells in year 3. WHD has a net revenue interest (NRI) of 75% and a standard royalty burden of 25%. The company is responsible for 100% of the drilling and completion costs of the first 32 wells, and will receive 100% of the WI on these first 32 wells.

The Figure Four Property is estimated to have 383 bcf (P-90%) / 529 bcf (P-50%) / 700 bcf (P-10%), of gas in the primary target, the Williams Fork formation. (according to the NI 51-101 compliant Resource Evaluation Report). The company has a sales and marketing agreement, and a transportation agreement, with EnCana for EnCana to purchase all of the gas produced. The produced gas is transported through an Encana Pipeline and the main east-west gas line that crosses the northern and central plains in the U.S., connecting to all major metropolitan areas.

The four-well program, which commenced in December 2006, was completed in July 2007. The objective of the program was to test and produce from the targeted pay zones - William Fork and underlying formations. Initial results of the first two wells were very positive, and based on log information, it was estimated that the first well holds a net recoverable resource of 5.1 bcf, which is 3 times the previous estimate of 1.7 bcf.

The company's initial plan was to hydraulically stimulate all four wells and put them into production between July 2007 – December 2007. However, the company encountered difficulties with water, shallow stimulation of the frac zones and back pressure, technical problems, severe winter conditions and third-party delays in completing the pipeline connections on the Rockies Express, and therefore, there was a significant delay in the production timeline. WHD also had to spend a significant amount of capital on this project to date. As of January 31, 2008, the company has spent about $30.4 million on the Figure Four project.

In late 2007, the company entered into a relationship with Schlumberger Limited (NYSE: SLB), the world's largest oilfield services corporation, to evaluate and recommend the technical procedures that the company needs to implement to achieve the highest and best production for its first four wells. WHD, with Schlumberger, commenced a re-stimulation project in August 2007, to enhance the production from the four wells.

The first three wells are currently in production, with the fourth expected to commence production this summer. Although WHD has yet to disclose production rates, the company has indicated that all three wells are performing as statistically forecasted by Schlumberger's pre-completion estimates. All three wells will be stimulated in the upper formations to produce additional gas.

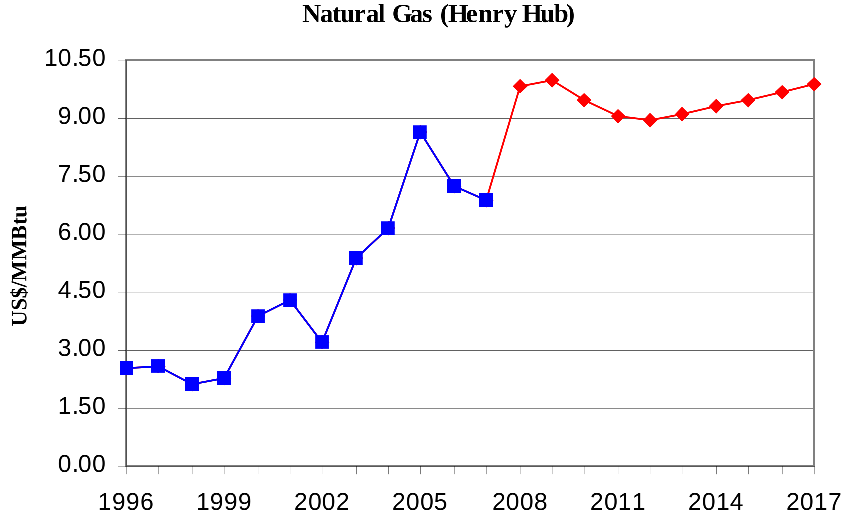
In July 2008, WHD announced that they hired New Tech Engineering (an engineering and operating company with extensive experience in the Piceance Basin) to help manage the Figure Four Natural Gas Project. New Tech Engineering will use their experience in the Piceance Basin to maximize production on all the wells. They are also designing and implementing a drilling plan for WHD’s 2008 drilling program.

Signs MOU with Petrobras: On June 12, 2008, WHD announced they signed a MOU with Petroleo Brasileiro S.A, or commonly known as Petrobas, for a partnership to jointly develop the Figure Four property. Government-run oil company Petrobas (NYSE: PBR) is the fifth largest oil company in the world, and is now the biggest emerging-market company by market capitalization (US$292 billion). Petrobas intends to invest US$4.8 billion until year 2012, in upstream and downstream oil and gas projects in stable regions of the world, including the U.S. Petrobras is currently conducting their due diligence process.

The fact that WHD was able to sign a MOU with Petrobas is highly encouraging as it indicates the potential of the Figure Four project. If the two companies decide to partner and jointly develop the project going forward, we believe, this will significantly reduce WHD’s risk, while allowing them to participate in the upside potential. Increasing cash flows from this project are very important for WHD at this moment, as it will allow the company to fund the development of their coal gasification projects.

Natural gas price forecasts – Natural gas from the Piceance Basin has been trading below NYMEX prices due to inadequate export transportation systems of natural gas in the region. The price differential between NYMEX gas prices and Piceance’s sales has ranged between $1.01/mmbtu and $2.06/mmbtu in 2004 - 2006. However, the price differential has narrowed recently as the Rockies Express west to east pipeline is now in operation through Kansas.

We have maintained our positive outlook on long-term natural gas prices. The table below shows average natural gas (Henry Hub) price forecasts through 2017. As shown in the chart, prices are expected to stay above US$8.50/mmbtu through 2017.



Source: Sproule & GLJ

Coal Gasification/ Coal to Liquids

Lu'An Partnership

Coal to Liquids Development: Coal transformation incurs significant costs. Beyond the cost of mining coal, the construction and operation of coal gasification/liquefaction plants requires significant capital expenditures that could be beyond the realm of many junior resource companies. However, West Hawk has a partner, Shanxi Lu'An Coal Mining, that is heavily invested in coal technologies and mining in China, and is building a C$3.6 billion dollar plant there. Lu'An is a multi-billion dollar company listed on the Shenzhen Stock Exchange. In March 2007, Lu'An purchased 25% of West Hawk's subsidiary, West Hawk Energy (USA) for US$7.5 million. Since our last update, Lu'An and West Hawk have strengthened their alliance and agreed to develop three coal to liquids facilities in China and North America. Dr. Jinsheng Chen, Director of West Hawk Development Corp. and President of Asian Operations, has been appointed to the position of President and CEO of the West Hawk Asia Energy Unit. This first coal to liquids plant will be a 25/75 joint development between West Hawk Development and the Luan Mining Industries Group. The two coal conversion facilities are outlined below.

1. Xinjiang New Energy and Coal Chemical Base
2. A North American plant, site yet to be determined

The joint venture's first project will be a coal to liquids plant containing one unit operating at 6,000 – 7,000 tons/day, which will produce about 2 million tons of liquids per year. They are planning to primarily produce diesel fuel. This one unit has a projected cost of $2 - $3 billion, and the joint venture plans to expand production. The final capital cost will be determined by a feasibility study currently under way.

The company has also announced their participation in the development of the Xinjiang Coal Mine and Coal to Liquid project in Zinjiang, China. West Hawk is still negotiating an equity position in the project. Lu'An has estimated 7 billion tons (not NI 43-101 compliant) of coal at this project. The processing facility will be built using Sasol-Lurgi's proven coal gasification and coal to liquids technology to speed up the development of the project.

Power Ecalene Fuels Partnership

In February 2008, West Hawk entered into an exclusive agreement with Power Ecalene Fuels to market, license, and develop Power Ecalene's syngas to liquids technology. West Hawk intends to use PEF's technology in the United States and Canada for their projects, in Asia for projects in conjunction with Lu'An, and develop projects with this technology worldwide in the future. West Hawk will gain the right to develop, construct, and operate this type of technology at its other projects in North America and Asia.

United States

Oklahoma-Arkansas Coal Property

Property Overview: The company recently entered into a letter of intent to develop an extensive coal field in Oklahoma with potential for coal gasification and coal bed methane conversion.

Ownership: The company has entered into a letter of intent with FEV Energy, a private Denver, Colorado based company, to develop this project. Upon completion of due diligence, the two companies intend to form a limited liability company in which West Hawk will own one third and FEV will own two thirds. In the event of operations, West Hawk will manage the company and manage the coal and coal bed methane extraction operations, while FEV will manage the gas gathering and gas sales operations, as well as the project financing.

Historic Exploration/Production: This large property has been in production since the early 1900s. Farrell Cooper Mining Company, a private company, has mined the Hartshorne coal seam using surface mining techniques since the 1940s. This company specializes in surface mining and is selling the property since it will require underground mining. West Hawk and FEV plan to use underground techniques to mine the remaining coal seam.

Accessibility and Infrastructure: The project has been in production for many years and is well served for accessibility and infrastructure, including rail, paved roads, water, and power on site. The project has been permitted as an open pit mine.

Geology and Mineralization: This property has produced metallurgical and thermal coal. Farrell Cooper has been producing a low volatile, low moisture, 6-8% ash, and 1% sulfur metallurgical coal product since the 1940s.

Metallurgy: The joint venture will likely use Power Ecalene Fuels' coal conversion technology at this project.

Current Status: The joint venture is currently completing their due diligence, including evaluation of land title and permits, engineering analysis on rock mechanics, ventilation, mine design, coal handling, coal de-gasification, and power system analysis, as well as marketing and commercial issues. The joint venture has commissioned an independent reserve study for coal and coal bed methane. This is expected in 2008.

Resource Estimates: West Hawk will commission a potential resource estimate report when the acquisition is finalized.

Colorado East Coal Property

The company terminated the LOI in the Colorado East Coal property.

Canada

Groundhog Coal Properties

Property Overview: The Groundhog anthracite coal property in British Columbia is a top priority for the company but is not as advanced as the company's other coal properties. This is partly due to First Nation consultation requirements on the property, which stalled the company's proposed 2006 drilling program. An access and benefits agreement was concluded in February 2008, and a $4 - $5 million drill program is planned.

Ownership: West Hawk has the option to acquire 100% interest in the project.

Accessibility and Infrastructure: The project is 30 kilometers away from a rail network and a rail bed has been extended to the Groundhog property. The company would probably transport direct shipping coal or fuels/gases to Prince Rupert, BC.

Current Status: This agreement will allow West Hawk to conduct a 10 - 15 hole drilling program on its Groundhog coal fields to map the location and prove up a potential resource. They intend to complete a feasibility study to evaluate the best course of action for developing the project. It could be advanced as a direct shipping coal project or as a coal conversion project.

At the end of July 2008, the company announced the start of the exploration program at its Groundhog anthracite coal property. The goal of the program is to determine the full extent of the PCI/coking properties of the coal and categorize the coal into the measured and indicated classification. The first phase of the program will total 10 drill core holes. Permit applications were submitted at the beginning of July, and it is currently at the referral stage of the process. The company expects to receive approval shortly and drilling to start in late summer.

Exploration Target: A NI 43-101 technical report has been completed that allows the company to disclose the historic estimates made on the Groundhog property.

Category	Resource
Historic Resource	275 – 300 million tonnes
Potential Exploration Target	700 – 750 million tonnes

Outlook on coal: As shown in the table below, the Energy Information Administration (EIA) expects world coal consumption to increase by 74% from 114.5 quadrillion Btu in 2004, to 199.1 quadrillion Btu in 2030, representing a CAGR of 2.15%. Coal production is expected to grow at 2.20% per annum in the forecast period. World coal supply is forecasted to be in surplus through 2030.

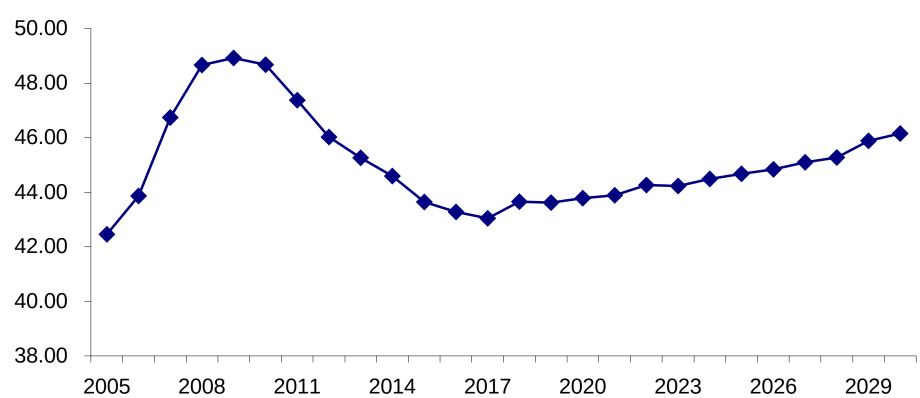
(in Quadrillion Btu)	2004	2010E	2015E	2020E	2025E	2030E	CAGR
Consumption	114.5	136.3	151.6	167.2	182.9	199.1	2.15%
Production	113.4	136.6	152.1	167.7	183.8	199.9	2.20%
Surplus	-1.1	0.3	0.5	0.5	0.9	0.8	

Source: EIA

The EIA estimates that coal accounted for about 26% of total world energy consumption in 2004, and expects it to increase to 28% in 2030. Coal is an important input in the electric power sector, which is forecasted to account for 46% of the world electricity generation by 2030, compared to 41% in 2005. The EIA has recently updated its demand outlook for coal, and expects consumption to grow from 122.5 quadrillion Btu in 2005, to 202.2 quadrillion Btu in 2030.

Although coal supply is expected to be sufficient to meet coal demand in the long term, global coal prices have increased significantly during the past few years and are forecasted to remain strong until 2010. Particularly, the price of anthracite was about US$150/ton in June 2008, up from US$70/ton in 2003. Ultra-low volatile PCI coal contracts in 2008 have been settled at US$248/tonne, and we believe anthracite is well suited to make PCI coal in light of its high carbon content and few impurities. The following chart shows historical and forecasted U.S. coal prices (average of Minemouth price, delivered price, and export price) through 2030.

Average U.S. Coal Prices, 2005 - 2030 (in US$/ton)



Source: EIA

Northwest Territories Coal Properties

Property Overview: The Northwest Territories land holdings (six exploration licenses for 229,150 acres) are a longer-term priority for the company for coal gasification due to their proximity to the proposed Mackenzie Valley Pipeline. The Tulita, Seagull Island, Tate Lake, and Mattson Formation properties total 272,503 acres on and around the Mackenzie Valley.

The Tate Lake property is adjacent to an Encana oil pipeline. The Tate Lake, Seagull, and Fort Norman projects are on or very close to the proposed major Mackenzie Valley Pipeline. Close proximity to the pipeline increases the potential for a big mining project based on a mine mouth coal to gas or a coal gasification/coal to liquids facility. The MacKenzie pipeline is still in early stage and has faced a number of roadblocks already. If the MacKenzie project does not happen, West Hawk may be able to use the Encana oil pipeline near their Tate Lake property.

Coal gasification tests: The company is hoping to produce pipeline quality gas and/or liquids to be shipped through the proposed Mackenzie Valley Gas Pipeline or the existing Encana pipeline. The coal gasification tests completed by Sasol Lurgi revealed that all samples contained coal suitable for coal gasification and that the coal to gas/liquid conversion efficiencies were very high.

Geology and Mineralization: The NW Territories coal is lignite to high volatile bituminous quality. West Hawk believes most of this coal is recoverable through open pit methods with a low strip ratio. The strip ratio in an open cast coalmine determines the amount of waste rock that has to be removed to produce a unit amount of coal. Low ratio strip mining results in lower costs of production, which in turn increases margins.

Resource Estimate: The Northwest Territories properties have historic inferred resource estimates of lignite to sub bituminous coal. The company has completed an NI 43-101 technical report for the Tulita property, which allowed them to disclose historic resource estimates and exploration targets. Previous exploration in the 1970s by Manalta Coal Ltd and Luscar Ltd., suggest that the Tulia Prospect has a historic resource estimate of 1.544 billion tons of coal and an exploration target of 140 to 175 million tons of coal as “exploration potential.”

Current Status: The company plans to begin with a drilling program targeting Seagull Island North and South, and Tate Lake Northeast to determine a NI 43-101 compliant resource. The company’s proposed timeline to develop the Northwest Territories has been adapted to the new MacKenzie Valley Pipeline Project timeline. According to management, the company has formally expressed their interest to the developers of the pipeline to secure transportation capacity. As the MacKenzie Valley Pipeline will likely not be completed until 2014, the Northwest Territories Project is very long-term.

Nunavut Coal Project

Property Overview: The company completed an independent NI 43-101 compliant technical report for the Nunavut Coal Project. As it is not a priority for coal gasification, management suggests that they are interested in the possibility of optioning the property to an interested party.

Exploration Target: In 1981, Gulf Resources Inc. estimated a potential exploration target tonnage for the North Fosheim Peninsula Property. The exploration target is not a resource and was calculated prior to the implementation of NI 43-101. West Hawk estimates their property encompasses approximately 55% of Gulf’s potential exploration target area. Therefore, the historic exploration target on the company’s property is approximately 3.025 to

3.162 billion in-place tons, based on the previous estimate by Gulf of 5.5 to 5.750 billion tons.

Management

In our last report, we noted West Hawk's board and management changes to reflect their transition from an exploration company to a producing company. The company's management changes since our last update reflect their increasing focus on coal gasification. Mr. Michael Sandidge and John Reeves resigned from the board of directors. Mr. Sandidge was replaced with Richard F. Braun. In addition, the company added a member of senior management of Lu'An to their board of directors and management. The biographies of these new members follow.

Dr. Andrew P. Schissler - Executive Vice President of Engineering

Dr. Schissler will be responsible in leading design, engineering, and construction of all projects including the BC - Groundhog, NWT - Tulita, and Ellesmere Island coal properties in Canada; the Figure Four Gas Project in Colorado, a US coal project and expanding energy opportunities in North America, Latin America, and China. Dr. Schissler has 33 years of international experience in coal, gas, and other minerals. He has held positions from Laborer to Vice President in mines and plants, and corporate assignments at companies including Cyprus Amax Minerals, Southern Utah Fuel Company, Consol Energy, and Stolar Research. He was also on the graduate faculty of The Pennsylvania State University in the Department of Energy and Mineral Engineering. His educational profile includes a Bachelor of Science, and Doctor of Philosophy in Mining and Earth Systems Engineering from the Colorado School of Mines. He holds an M.B.A. degree from Regis University, Denver Colorado. Dr. Schissler is a Professional Engineer in 2 states and a Certified Mine Foreman in 3 states. He is a Founding Registered Member of the Society of Mining Engineers—earned credential signifying expertise in independent mineral valuation.

Richard F. Braun - Director

Mr. Braun brings extensive business experience to West Hawk. After achieving his Bachelor of Science degree in Mechanical Engineering from Stanford University and graduate studies at the University of Oregon's Graduate Business School, Mr. Braun held senior management positions at FMC Corporation (Chemicals Group) and International Energy Funds GmbH. He then served as President of Sira Petroleum Corp. before accepting the offices of Executive Vice-President and Chief Operating Officer with Fuel Resources Development Co. Mr. Braun presently provides consultancy services in the areas of new product development, feasibility studies, business planning and oil and gas prospect development.

Mr. Dongfei Wang – Director

Mr. Wang is from the Lu'An Mining Industry (Group) Co. Ltd. He is a senior economist and is completing his Ph. D. at the Department of Chemical Engineering, China Mining University in Beijing. Mr. Wang is currently the Director of the Technology Center for the Lu'An Mining Industry (Group) Co. Ltd. He is also a director of the Coal to Liquids Company's Board of the Chinese Academy of Sciences in Beijing.

For the last twenty-three years, Mr. Dongfei Wang has been working for the Lu'An Mining Industry (Group) Co. in various management positions. Prior to his current position, Mr. Wang was the Executive Deputy General Manager of the Lu'An Coal to Liquids Company, a subsidiary company of the Lu'An Mining Industry (Group) Co. Since 1992, Mr. Wang has received more than ten technology awards for his contributions to the Chinese Coal Mining and Coal to Liquids Industries at the National, Provincial, City, and Company Levels.

Mr. Steven Marusich - Technical Advisory Board
Mr. Marusich brings over 50 years of mining experience including specialization in underground mining. Most recently, Mr. Marusich has been working on an in-situ coal gasification project.

Mr. Marusich has been a mining engineer, manager and president of coal companies, during his 50 year career. Starting as a miner in Ostrava, Czechoslovakia, Mr. Marusich became foreman and then engineer. He earned his Mining Engineering degree in 1968 from Mining University in Ostrava. Since immigrating to the USA in 1970, he has worked for American Electric Power, Coastal States Gas Corp., and Tesoro Petroleum in senior engineering and management positions. Presently, Mr. Marusich is Senior VP of Mining Projects for Ryan Holding Corp.

Financials

In the first nine months of FY2008 (ended January 2008), the company recorded a net loss of \$2.23 million (EPS: -\$0.03) versus \$3.12 million (EPS: -\$0.07) in the comparable period in the previous year. The table below shows the company’s cash and liquidity position.

Key Financial Data (FYE - April 30)				
(in C$)	**2005**	**2006**	**2007**	**2008 (9 mo)**
Cash	120,126	1,378,613	5,727,000	161,000
Working Capital	163,985	1,352,018	2,254,000	(11,718,000)
Assets	328,228	5,680,757	27,476,000	36,446,000
LT Debt	-	-	-	-
Burn Rate	(44,279)	(383,666)	(1,265,403)	(1,744,222)
Financings	553,708	5,862,478	19,532,902	2,702,000

At the end of January 2008, the company had cash and working capital deficit of \$0.16 million and \$11.72 million, respectively, versus cash and working capital of \$5.73 million and \$2.25 million at the end of April 2007. The cash position declined as the company’s burn rate (cash spent on operating and investing activities) significantly increased to \$1.75 million per month in the first nine months of FY2008, versus \$1.27 million per month in FY2007 (12-month period ended April 2007).

The company was in a working capital deficit at the end of January 2008, primarily because it had \$12.87 million in accounts payables and accrued liabilities outstanding (primarily as a result of trade obligations for work performed by suppliers, contractors and vendors on Figure Four), and \$1.56 million in notes payables. Of the \$12.87 million in accounts payables and accrued liabilities, approximately \$5.2 million is subject to lien claims that have been filed on the wells.

In order to improve its working capital position and pay off its suppliers, contractors and vendors, the company engaged in the following financings in 2008.

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- In April 2008, WHD signed an agreement with Fuselier Holding, LLC (Richardson, Texas) for the assignment and transfer to Fuselier of approximately **US$10.6 million in outstanding trade debt.** According to the agreement, Fuselier will receive up to US$0.80 million in previously issued common shares of WHD, and a promissory note of US$9.8 million. Repayment of principal and interest will be made in shares over a 19-month period. WHD has the right to cash prepayment in certain circumstances. In May 2008, WHD announced that Fuselier had successfully reached agreements with all of the 29 creditors who had filed lawsuits or made liens against West Hawk.

- In May 2008, WHD announced that **Fuselier acquired WHD's secured note from Laurus Master Fund, Ltd. for a purchase price equal to the outstanding principal balance of $1.30 million**. In exchange, WHD issued a convertible promissory note to pay the principal amount plus an acceleration fee of $0.39 million. As a result of this transaction, Lauras no longer has a 2.5% overriding royalty interest in Figure Four, and Fuselier obtained releases of all security interests that were filed, thereby freeing up all assets that were pledged to secure the original financing with Laurus. WHD provided a bridge loan to Fuselier for $1.3 million to pay out Laurus. Fuselier will repay the amount by June 30, 2008, subject to a right of setoff against the replacement note.

- During May and June 2008, the company **closed two non-brokered private placements to raise a total of $3.62 million**, by issuing 18.11 million units at a unit price of $0.20. Each unit consists of one common share and one common share purchase warrant (maturity period - 24 months; exercise price - $0.40 per share).

- In July 2008, the company closed a brokered private placement by issuing 17.02 million flow through common shares at a price of $0.35 per share and 18.90 million units at $0.30 per unit to raise aggregate gross proceeds of $11.63 million. Each unit consists of one non-flow through common share and one half of one non-transferable common share purchase warrant. Each warrant entitles the holder to acquire one non-flow through common share for a period of 24 months at $0.50 per share.

In addition to all the above mentioned completed/announced financings, the company will also receive US$5 million from Lu'an this year to maintain their current 25% ownership in WHD.

Stock Options and Warrants: We estimate the company has about 19.16 million stock options outstanding with a weighted average exercise price of $0.38, and maturity periods between December 2008 and January 2011. The company also has about 56.27 million warrants with a weighted average exercise price of $0.51, and maturity periods between September 2008 and July 2010. We estimate the company has about 7.70 million options and 20.41 million warrants currently 'in-the-money'. If all these 'in-the-money' options and warrants are exercised, the company can raise up to $5.86 million.

Conclusion: The recent transactions with Fuselier, we believe, will allow the company to come out of a working capital deficit, as their notes payables and other payables will be re-classified from 'current' to 'long-term' liabilities.

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WHD has also raised a total of $15.25 million in recent private placements and we believe the company is currently in a sound cash position. The company's cash position will be further improved when it receives Lu'an's $5 million investment.

Valuation

Valuation of the Figure Four Property: Our revised valuation on the Figure Four project (shown below) is $0.73 per share, down from our previous estimate of $1.34 per share.

Net Asset Value	
Resourcce	383 bcf (P90%)
No. of wells	200
Long-term Oil Price (US$/bbl)	$80
Long-term NG Price (US$/mmbtu)	$8
Discount Rate	12%
NPV	$107,646,977
Shares	147,256,800.0
Value per share	**$0.73**

The following noteworthy revisions in our valuation model resulted in the change in our valuation of the project.

- **Revised commodity prices**: We have increased our long-term commodity price forecasts to US$80.00/bbl oil and US$8.2/mcf gas, compared to US$60/bbl oil and US$7/mcf gas in our previous report.
- **Delayed production:** In light of the delay in the company's drilling program, we have pushed back the timeline for the company to drill its wells. In our previous report, we had assumed the company would drill 32 wells in 4 years. We now expect the company to drill the first 32 wells in 5 years.
- **Revised shares:** Our estimate of the number of diluted shares (based on the treasury stock method) has increased significantly to 147.26 million, compared to 71.93 million in our previous report.

Valuation of the Groundhog property: We have lowered our valuation of the Groundhog property to $0.36 per share, down from our previous estimate of $0.69 per share. We have made the following noteworthy changes in our DCF model.

- **Revised commodity prices**: We have increased our long-term anthracite price forecast to US$80/tonne, compared to US$69/tonne in our previous report.
- **Increased operating costs:** We have assumed that operating costs would represent 69% of revenues, up from 54% in our previous report.
- **Production commencement:** We have now assumed production to start in 2013 versus 2012 in our previous report.

In addition, the significant increase in our estimate of the number of diluted shares also contributed to the decline in our valuation of the groundhog project.

DCF Valuation - Groundhog Property	
Coal Production	88 million tonnes
Mine life	32
Capital cost	$225 million
Operating cost (% of revenues)	69%
Production Commencement	2013
Discount rate	11.63%
NPV ($)	53,584,589
FD Shares	147,256,800
DCF Value	**$0.36**

Conclusions and Rating

Our revised valuation of the company is $1.03 per share, compared to $2.00 per share in our previous report. We have not valued the company's other projects due to an uncertain timeline associated with their exploration and development plans, and because they are in relatively earlier stages.

Valuation Summary	
Figure Four	$0.73
Groundhog	$0.36
Working Capital - LT Debt	($0.06)
Value per share	**$1.03**

Based on our valuation models and review of the company's progress since our previous report, we reiterate our BUY rating and lower our fair value of the company to $1.03 per share. Our fair value estimate reflects an upside potential of 312% from current price levels.

Risks

The following risks may cause our estimates to differ from actual results.

- Like other juniors, the value of the company depends on commodity prices.
- Weather - Natural gas sales depends heavily on the weather conditions. Colder winters and warmer summer will improve natural gas sales.
- Exploration, Development and Production Risk –The ability to grow depends heavily on the ability to explore, develop properties and acquire suitable producing properties. A junior company can only have sustainable growth through consistent performance in all these areas.
- First Nations claims and environmental concerns have the potential to delay or stall the company's coal gasification projects in Canada and the United States.

We rate the company a **RISK of 4 (Speculative).**

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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