

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA  
Analyst

Vincent Weber, B.Sc  
Research Associate-Mining

Jacky So  
Research Associate

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## Molycor Gold Corporation (TSXV: MOR) – NI 43-101 Magnesium Resource for Tami-Mosi Project, Nevada

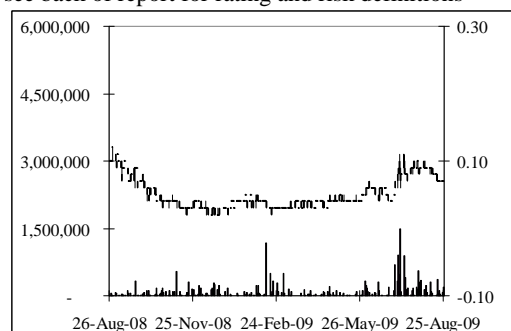
Sector/Industry: Junior Exploration/Mining

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

### Market Data (as of August 28, 2009)

Current Price	\$0.08
Fair Value	\$0.40
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	\$0.02 - \$0.12
Shares O/S	72.35 mm
Market Cap	\$5.79 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.50
YoY Return	-33.3%
YoY TSXV	-39.4%

\*see back of report for rating and risk definitions



### Investment Highlights

- NI 43-101 inferred resource estimate released on Tami-Mosi project in Nevada: 236.18 million tonnes grading 10.00% magnesium translating to 51.75 billion pounds of magnesium contained
- Initial NI 43-101 resource estimate released on joint owned Empress molybdenum property: 1.70 million tonnes grading 0.095% Mo indicated; 1.66 million tonnes grading 0.095% Mo inferred.
- Rock chip sampling at Windpass gold property identifies new gold zone with high grade assay of 316.5 gpt (approximately 9.23 troy oz/t) with native gold present.
- On August 25, 2009, MOR announced it closed the first portion of a proposed financing (of up to \$0.56 million) by issuing 2.80 million units to raise gross proceeds of \$0.22 million.
- Due to the early stage nature of its projects, we had not assigned a valuation on the company in our initiating report (dated January 15, 2008). We now assign a BUY rating with a fair value estimate of \$0.40 on MOR.

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

(C \$)	2006	2007	2008	2009 (6mo)
Cash	326,014	1,180,536	757,849	438,090
Working Capital	290,727	1,185,349	745,683	451,216
Mineral Assets	1,520,142	2,417,272	3,375,780	3,334,160
Total Assets	1,960,372	3,793,598	4,263,311	3,954,092
Net Loss	(766,529)	(1,309,240)	(1,015,356)	(405,608)
EPS	(0.02)	(0.02)	(0.16)	(0.006)

Molycor Gold Corp holds 10 molybdenum/magnesium/precious metals properties, 5 in British Columbia and 5 in the Battle Mountain-Eureka Trend of Nevada. The Tami-Mosi project in Nevada has an inferred NI 43-101 resource of 236.18 million tonnes grading 10.00% magnesium translating to 51.75 billion pounds of magnesium contained.

**Overview**

Since our initiating report, Molycor Gold has continued to progress several of its properties in both British Columbia and Nevada despite the difficult economic environment. A magnesium resource has been released for the 100% owned Tami-Mosi magnesium/manganese/gold property as has a molybdenum resource on the 50% owned Empress property. Rock chip sampling at the company's 100% owned Windpass property in central British Columbia identified a new gold zone with assay results up to 316,500 ppb (9.23 troy ozpt).

**Tami-Mosi Property**

On July 7, 2009, Molycor Gold released an initial NI 43-101 compliant inferred magnesium resource on their 100% owned Tami-Mosi project in Nevada stating 236.18 million tonnes grading 10.00% magnesium translating to 51.75 billion pounds of magnesium contained.

The resource estimate was calculated at an 8% cut-off and applied a specific gravity of 2.84 tonnes per cubic meter for the dolomite host. The mineral resource blocks were extended to 200 meters below the existing surface, a depth considered practical for an open pit mine. The mineralization starts near surface as is demonstrated by hole #TM-07-13 which assayed 11.40% Mg over 164.6 meters from a starting depth of 1.5 meters.

RESOURCE CALCULATIONS FOR THE TAMI-MOSI							
	SECTION	AREA Sq.m.	HORIZ. m.	VOLUME Cu.m.	TONNAGE Tonnes	GRADE % Mg	POUNDS Mg.
1	43500N	72,450	100	7,245,000	205,75,800	12.12	5,486,331,312
2	43200N	78,378	100	7,837,800	22,259,352	10.62	5,200,675,001
3	43100N	58,873	100	5,887,300	16,719,932	10.16	3,737,239,201
4	4300N	62,513	100	6,251,300	177,53,692	12.22	4,772,902,557
5	42700N	46,354	100	4,635,400	13,164,536	10.09	2,922,263,701
6	42600N	64,290	100	6,429,000	18,258,360	9.19	3,691,475,225
7	42500N	99,316	100	9,931,600	28,205,744	10.5	6,515,526,864
8	42000N	29,483	100	2,948,300	8,373,172	10.16	1,871,571,405
9	4200N	65,001	100	6,500,100	18,460,284	11.02	4,475,511,253
10	41800N	26,558	100	2,655,800	7,542,472	9.74	1,616,200,900
11	41800N	16,897	100	1,689,700	4,798,748	11.38	1,201,414,549
12	41300N	26,491	100	2,649,100	7,523,444	9.45	1,564,124,008
13	4100N	37,326	100	3,732,600	10,600,584	9.33	2,175,875,872
14	40900N	17,436	100	1,743,600	4,951,824	10.21	1,112,278,707
15	40900N	19,400	100	1,940,000	5,509,600	9.1	1,103,021,920
16	40800N	35,264	100	6,526,400	10,014,976	9.95	2,192,278,246
TOTAL POUNDS Mg.							49,638,690,722
TOTAL TONNES AND GRADE UNDILUTED					214,712,520	10.51	
WITH 10% DILUTION AT THE LISTED GRADE					21,471,252	4.89	2,309,877,290
DILUTED TONNAGE AND GRADE					236,183,772	10.00	51,748,568,012

Figure 1: (Source: Molycor Gold Corp.)

The chemical composition of Tami-Mosi dolomite shows only slight variance from the National Bureau of Standards, "Standard 88b dolomite." The purity of Tami-Mosi dolomite inferred from this comparison is significant to the up-side potential of the project as it will

positively influence metallurgy. The deposit at Tami-Mosi has relatively low iron and aluminum concentrations reducing the quantity of competing metals in the recovery process, making recovery more efficient. The United States, where this deposit is located, currently imports a large portion of its magnesium for metallurgical uses. This may be a positive influence to developing a domestic magnesium deposit.

The age old Pidgeon process used to recover magnesium is highly energy intensive necessitating a source of cheap electricity and a deposit whose structure influences low cost extraction. Industrial electricity rates in Nevada (as of May 2009) are currently US\$0.0715 per kilowatt hour, a rate comparable but slightly higher than neighbouring states (Arizona - US\$0.0705, Utah, US\$0.0483) but much lower than California (US\$0.101). Regardless, we feel it is in the company's best interest to explore options to mitigate the potential cost of electricity. The near surface location and horizontal orientation of the dolomite beds hosting the mineralization at Tami-Mosi should positively influence the project.

#### Current Status

As noted above, Nevada has relatively high electricity rates. To potentially mitigate the costs associated with the energy intensive recovery of magnesium, the company has engaged Process Research Associates of Richmond, BC ("PRA") to complete metallurgical testing for the project. PRA will work to streamline the known recovery techniques as well as investigating potentially new technologies. **While the company is focusing on producing the metal value in the deposit, investors should recognize the potential value associated with other constituents of dolomite such as Calcium which may be liberated during processing.**

#### ***Empress Molybdenum***

In January 2009, Molycor and joint venture partner Goldrea (TSXV: GOR) released an initial resource estimate for the Empress deposit located near Summerland, BC. The resource was based on 19 BQ sized diamond drill holes totaling 3,493 meters drilled in a central portion of the deposit measuring 730 meters x 360 meters.

The resource estimate was calculated based on a metal value of US\$10 per pound of contained Molybdenum, assumed recovery of 85% and a cut-off grade of 0.05%:

**Indicated Resources – 1.70 million tonnes grading 0.095% Mo**

**Inferred Resources – 1.66 million tonnes grading 0.095% Mo**

In comparison to other molybdenum projects in the province of British Columbia, this is a relatively small project; however, we feel the near 0.1% grades of both the indicated and inferred resources are strong. At the Chu property near Summerland, TTM Resources Inc. (TSXV: TTQ) has measured, indicated, inferred resources of 398 million tonnes grading 0.061% Mo at a 0.04% cut-off. Bard Ventures Limited's (TSXV: CBS) Lone Pine property, a project we feel has significant potential, has measured plus indicated and inferred resources totaling 84.86 million tonnes grading 0.094% Mo and 22.83 million tonnes grading 0.094% Mo respectively, both at a 0.05% cut-off.

At the time of our initiating report, the Empress property was the primary focus of Molycor.

We believe the company has now shifted its focus towards magnesium/gold properties as the prices of these metals have stayed relatively stronger. However, the recent rise in molybdenum prices, we believe, would likely revive interest in this project.

### **Windpass**

A rock chip sampling program at the company's Windpass project located near Little Fort, BC has identified a new gold zone. Several chip samples recorded grades over 10 g/t Au, but the highlight sample was WP09-AR-07, taken from the North target, and returning an assay result of 316,500 ppb (approximately 316.5 g/t or 9.23 troy oz/t). Full assay results as provided by the company are found in Table 2. Figure 1 indicates the location of chip samples in relation to previously identified gold zones.

<b>Zone</b>	<b>Sample #</b>	<b>Sample Type</b>	<b>Gold ppb</b>
South	WP09-AR-01	Rock chip	12240
Windpass	WP09-AR-02	Rock chip	5610
Pioneer	WP09-AR-03	Rock chip	<b>23150</b>
South	WP09-AR-04	Rock chip	90
South	WP09-AR-05	Rock chip	85
Wind/Southwind	WP09-AR-06	Rock chip	3570
North	WP09-AR-07	Rock chip	<b>*316500*</b>
North	WP09-AR-08	Rock chip	3060
Weather Station	WP09-AR-09	Rock chip	<b>26500</b>
Weather Station	WP09-AR-10	Rock chip	11250
Dew	WP09-AR-11	Rock chip	540
Dew	WP09-AR-12	Rock chip	1160
Blizzard	WP09-AR-13	Rock chip	75
Frost	WP09-AR-14	Rock chip	2720
Windpass	WP09-AR-15	Rock chip	90

*Table 2: Windpass rock chip sample assays (Source: Molycor Gold Corp.)*

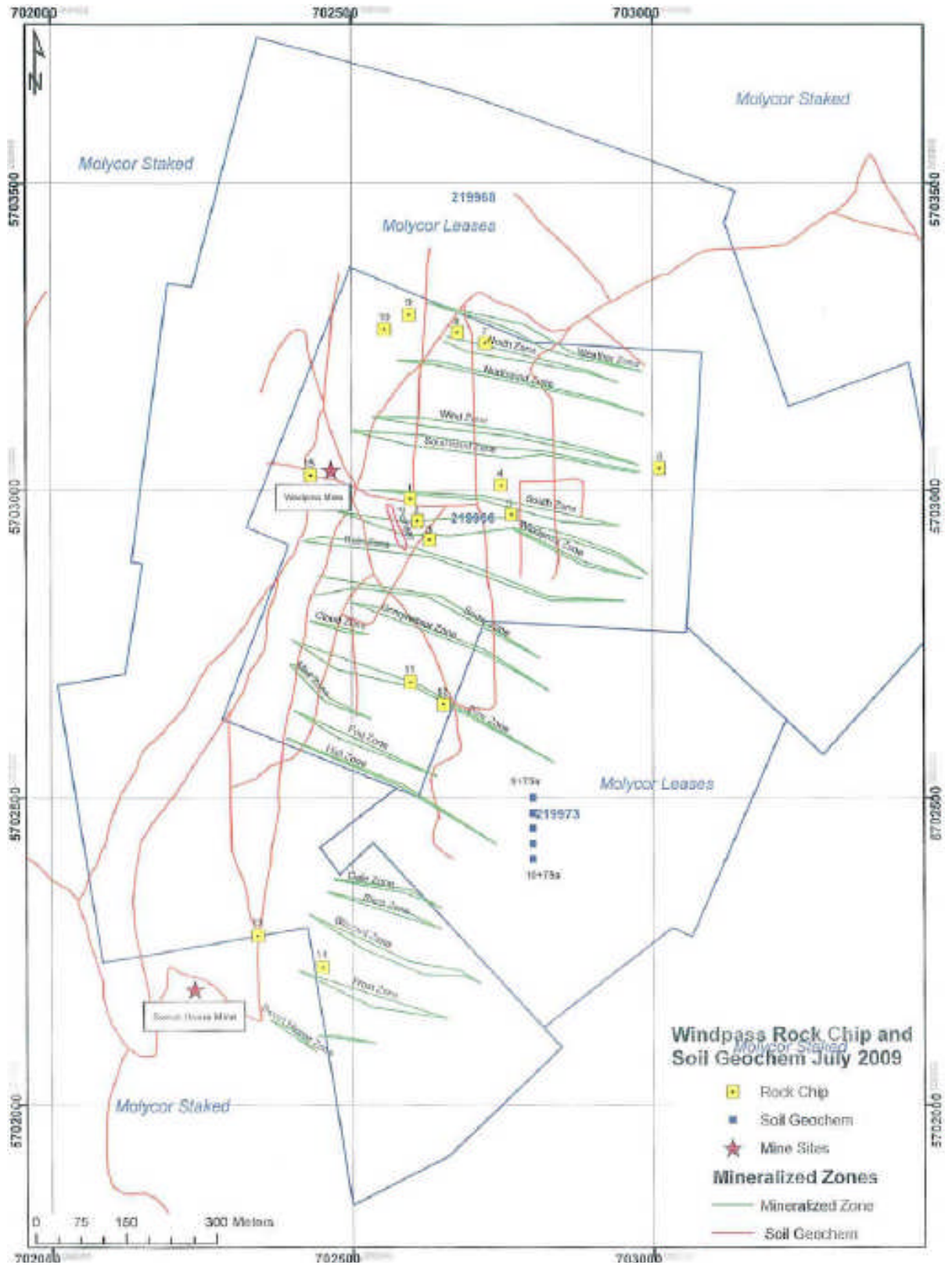


Figure 1: Rock chip sample locations and previously identified mineralized zones (Source: Molycor Gold Corp.)

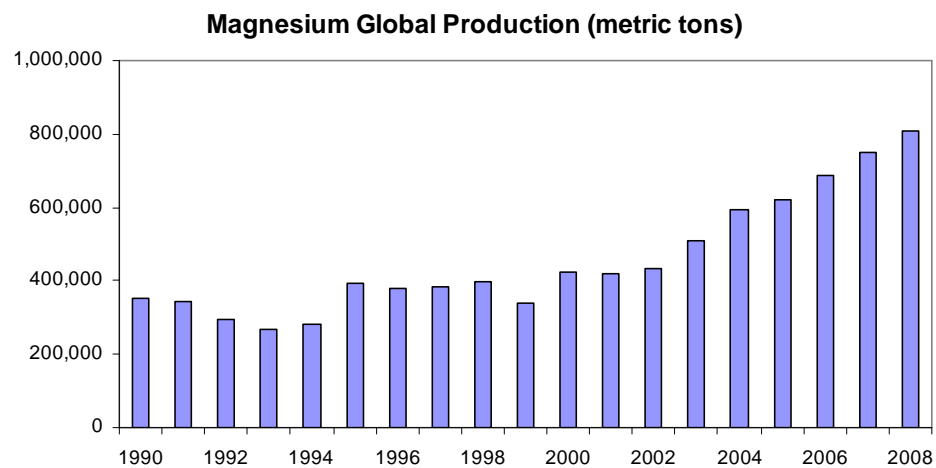
### ***Outlook on Magnesium***

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).

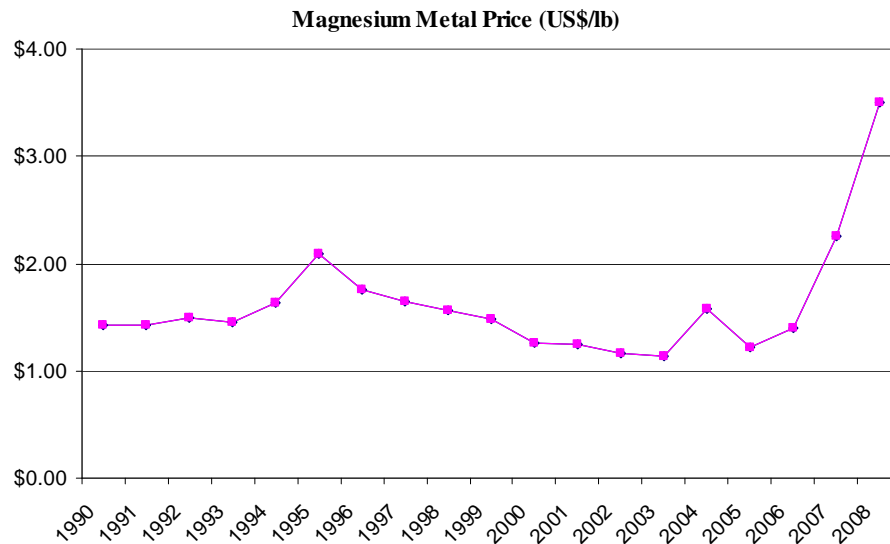


Source: USGS

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 July 21, 2009, magnesium was trading at about US\$2.29/lb in the U.S., down from US\$3.3/lb in December 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. In addition, 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 on July 21, 2009, were US\$1.14/lb, versus US\$2.29/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 MOR 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 Q2-FY2009 (quarter ended April 2009), Molycor had \$0.44 million in cash. Working capital was \$0.45 million. In the first six months (Q2 FY2009), the company reported a net loss of \$0.41 million (EPS: -\$0.006). We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.05 million per month in the first six months of FY2009, versus \$0.16 million per month in FY2008 (12 month period). The table below shows the company's cash and liquidity position at the end of Q2-2009.

(C \$)	2006	2007	2008	2009 (6mo)
Cash	326,014	1,180,536	757,849	438,090
Working Capital	290,727	1,185,349	745,683	451,216
Current Ratio	3.8	10.7	14.3	6.1
LT Debt / Assets	-	-	-	-
Cash from financing activities	1,211,687	2,678,588	1,542,044	-
Monthly Burn Rate (including exploration costs)	(81,474)	(152,006)	(161,048)	(53,293)

**Subsequent Financing:** In July 2009, the company announced its plans to raise up to \$0.56 million through a non-brokered private placement of 7 million units at a unit price of \$0.08. Each unit consists of one common share and one share purchase warrant (\$0.12 per share for two years). On August 25, 2009, MOR announced it closed the first portion of the proposed financing by issuing 2.80 million units to raise gross proceeds of \$0.22 million.

**Stock Options and Warrants:** We estimate the company currently has 8.28 million options (weighted average exercise price of \$0.16 per share) and 11.24 million warrants (weighted average exercise price of \$0.21) outstanding. All the outstanding options and warrants are currently 'out-of-the-money'.

**Overall, we believe the company is in a sound cash position, and has enough cash to fund exploration and operations for the rest of the year.**



**Valuation**

Due to the early stage nature of its projects, we had not assigned a valuation on the company in our initiating report (dated January 15, 2008). The recently announced resource estimates on its properties have allowed us to quantify the value of its assets.

**Tami-Mosi magnesium property:** Although the project is in early stages, we built a Discounted Cash Flow (DCF) model based on the NI 43-101 compliant resource estimate (we discounted the inferred resources by 50% for conservatism) to arrive at a valuation. Our DCF model gave a fair value estimate of \$56.15 million, or \$0.78 per share. Note that this is a very preliminary estimate as the inputs and assumptions used in our model were based on the limited work done on the project to date, information on comparable deposits, and discussion with management.

DCF Valuation Summary	
Resource (in mm tonnes) - 50% of inferred	118.09
Grade	10.00%
Recovery	78.6%
Contained Metal (in mm lbs)	20,463
Mine Life (in years)	25
LT Mg Price (in US\$/lb)	\$1.69
Average Cash Costs (in US\$/lb)	\$1.09
Capital Costs (US\$, mm)	\$2,500
Discount Rate	11.6%
<b>Net Asset Value (C\$, mm)</b>	<b>\$56,145,072</b>
No. of shares (diluted)	72,353,236
<b>Value per share</b>	<b>\$0.78</b>

The following table shows that our DCF valuation is highly sensitive to changes in magnesium prices and discount rates.

Sensitivity Table (C\$/share)					
		Mg Price (US\$/lb)			
		\$1.50	\$1.69	\$2.00	\$2.50
Discount Rate	8.0%	-\$2.05	\$11.43	\$33.42	\$68.89
	10.0%	-\$6.12	\$4.73	\$22.43	\$50.97
	11.6%	-\$8.43	<b>\$0.78</b>	\$15.79	\$40.01
	15.0%	-\$11.34	-\$4.57	\$6.46	\$24.25

We have therefore discounted our valuation by 50%, for conservatism, considering the early stage nature of the project and the sensitivity of our valuation to our model inputs.

**Empress Mo Property –** Our valuation of \$0.002 per share was based on MOR's share (50%) of 7.7 million lbs of Mo (we took 100% of indicated, but only 50% of inferred resources) using a valuation metric of \$0.03/lb (which we believe is the average valuation for early stage Mo projects at this time).

**Conclusions & Rating**

Adding the company's current working capital to our valuation on the Tami-Moss and Empress Mo projects, we arrived at a fair value of \$0.40 per share.

<b>Valuation Summary (C\$)</b>	<b>VPS</b>
Tami-Mosi	\$0.39
Empress Mo Property	\$0.00
Working Capital	\$0.01
<b>Net Fair Value</b>	<b>\$0.40</b>

**Therefore, based on our review of MOR's progress since our initiating report, and our valuation models, we assign a BUY rating with a fair value estimate of \$0.40 per share on MOR.**

### **Risks**

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

- Although the company has properties that cover several commodities as opposed to just a single metal, the value of the company is still dependent on commodity prices.
- Although the company has made major progress in the past 12 months, all of its projects are still in early stages.
- The success of drilling, project development and resource expansion are important long-term success factors for these early projects.
- Access to capital and share dilution.

**We rate the shares a RISK of 5 (Highly 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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