

### Adanac Molybdenum Corporation (TSX: AUA) – New Resource Estimate; Nearing Development

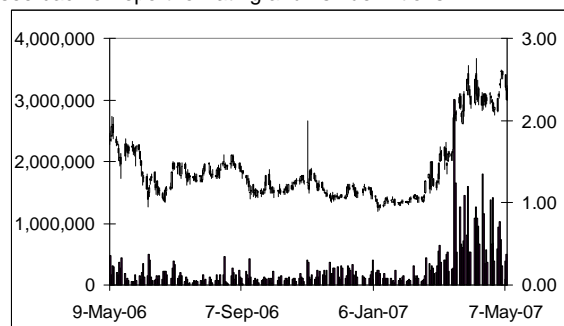
Sector/Industry: Mining

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

#### Market Data (as of May 8, 2007)

Current Price	C\$2.25
Fair Value	C\$3.25 (↑)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	\$0.90 - \$2.75
Shares O/S	95,326,833
Market Cap	\$200.19 million
Current Yield	N/A
P/E	N/A
P/B	7.30
YoY Return	25.0%
YoY TSX	13.2%

\*see back of report for rating and risk definitions



#### Investment Highlights

- The company announced an upgraded resource estimate adding 10.1 million pounds of molybdenum to their previous resource estimate at Ruby Creek, and announced a preliminary resource estimate at their B&C Springs property in Nevada.
- New management has been added with expertise and experience in mine production. The company is very well managed. They recently upgraded their listing to the Toronto Stock Exchange.
- Adanac is currently in the permitting process for the Ruby Creek Molybdenum project, and expects provincial and federal permitting by Q2-2007. The company is currently in the detailed engineering and procurement stage, and production is expected to commence at the Ruby Creek Molybdenum Project in Q1-2009.
- Since November 2006, AUA has raised \$20.86 million through 4 tranches, and \$40.6 million on a bought deal basis.

#### Risks

- Success is dependent on the development of the Ruby Creek property and is subject to grade risk, recovery risk, finance risk and cost overruns among others.
- The share price is correlated to the price of molybdenum.
- The company has been subject to delays affecting the entire industry. The estimated production date since we initiated coverage has moved from late 2007, to early 2009.

#### Key Financial Data (C\$)

	2004	2005	2006	Q3-2006
Cash	24,568	2,154,892	3,382,021	13,333,360
Mineral Assets	75,923	3,349,426	9,253,309	14,241,436
Total Assets	196,749	5,901,377	13,154,446	28,591,910
LT Debt/Assets	-	-	-	-
Net Loss	(313,514)	(1,187,083)	(2,153,762)	(4,477,589)
EPS	(0.04)	(0.05)	(0.05)	(0.07)

Adanac Molybdenum Corporation is a British Columbia based junior mining company that is focusing its molybdenum mining efforts in British Columbia, Canada. The company aims to begin production on their Ruby Creek project in Q1-2009, and is currently in the detailed engineering and procurement stage while they wait for permitting.

**Company  
Overview**

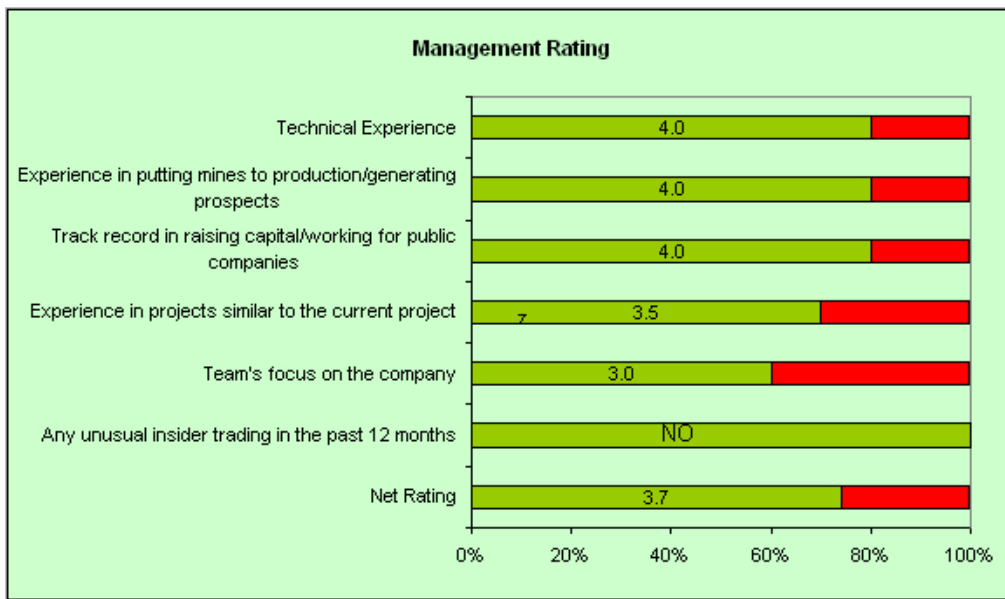
Adanac Molybdenum Corp. (TSX: AUA) is a British Columbia based junior mining company that is focusing its molybdenum mining efforts in British Columbia, Canada. **They upgraded their listing to the Toronto Stock Exchange on May 3, 2007, which implies that the company has proved the geologic merit of their projects.** Adanac's most advanced molybdenum project is the Ruby Creek Property in British Columbia, Canada. This molybdenum project covers 2,300 hectares located near Atlin, BC, and was explored by several companies over the last 100 years. Molybdenum price constraints, ownership agreements, and other factors prevented the successful development of the property in the past. With the currently high price of molybdenum, strong market fundamentals for molybdenum, and 100% ownership of the Ruby Creek property, Adanac has been working hard to bring the project into production, and has completed resource definition, preliminary feasibility, and bankable feasibility. The Ruby Creek project is currently in the detailed engineering and procurement phase, and is awaiting permitting results to commence construction in July 2007. They expect to be in production on the Ruby Creek Project by the beginning of 2009. The company recently announced an upgraded resource estimate that added 10.1 million pounds of molybdenum for a total resource of 295.7 million pounds of molybdenum measured and indicated, and 29.7 million pounds of molybdenum inferred.



Source: Adanac Molybdenum Corp.

**Adanac  
strengthens  
management**

As Adanac transitions from a junior exploration company to a full-scale producer, they are adding experienced persons to assist in project development and operations. Junior mining companies often have management teams made up of experienced exploration professionals. We believe Adanac is a very well managed company with a diverse, and experienced management team. **Based on our proprietary management rating model (shown below), we rate Adanac’s management team ‘Good’ (3.7 out of 5.0).**



The company is continuing to strengthen their management team by bringing in mining professionals with experience in mine development and operation. Adanac added two senior officials to their team since our last report in December 2006. Their brief biographies, supplied by Adanac, follow.

**Rick Alexander – Vice President of Project Development**

Mr. Rick Alexander is a registered Professional Engineer in British Columbia with over 25 years experience in the development and operation of mining projects. His experience will be of significant benefit in the development of the world class Ruby Creek Project.

Since graduation from the University of Alberta with a B.Sc in Mechanical Engineering, Mr. Alexander has successfully directed all phases of project development from feasibility studies through to managing detailed engineering procurement and construction management activities. His experience includes greenfield and brownfield projects internationally in Russia, Former Soviet Union, Central and South America and Australia; and extensive experience in Northern British Columbia, Alberta and the Northwest Territories. He was instrumental in the development of Adanac’s feasibility report for its Ruby Creek Molybdenum Project.

**Mike Petrina – General Manager for the proposed Ruby Creek Molybdenum Mine**

Mr. Petrina is a professional mining engineer registered in British Columbia and holds an MBA from the University of Athabasca. Having spent over 25 years in the mining industry in

open pit and underground operations comprising engineering and supervision, project development, consulting and contracting, his experience is a great asset for the development and operation of the proposed Ruby Creek open pit mine and concentrator.

**2006 Drilling:** The company's 2006 drill program drilled at a -50° angle to explore fractures with higher grade molybdenum that is not easily detected when drilling vertically as was the previous drilling in the proposed open pit mine area. Bulk sample tests by Kerr Addison in 1970 resulted in grades 20% higher than those discovered in Adanac's vertical drill holes, and the bulk sample test may have intersected these higher-grade fractures. The 2006 drill results suggested there is a greater amount of steep and near vertical quartz veins with higher-grade molybdenum that were not intersected by vertical drilling. At the time of our last update, management believed that these drilling results might increase the molybdenum grade 10-20%, from 0.084% Mo to greater than 0.1% Mo.

### ***New Resource Estimate***

On March 20, 2007, the company announced an updated resource estimate based on the 2006 angled drilling program. At a 0.4% molybdenum cut-off grade, the grade of the resource did not change, but this updated resource added 10.1 million pounds of molybdenum to the resource based on higher-grade material. The table below compares the 2006, and 2007, resource estimates.

<b>2007</b>	<b>Tonnes</b>	<b>Mo Grade (%)</b>	<b>Pounds of moly</b>
<b>Measured</b>	49,106,000	0.073	79,029,000
<b>Indicated</b>	163,801,000	0.060	216,669,000
<b>Inferred</b>	24,973,000	0.054	29,730,000
<b>2006</b>			
<b>Measured</b>	38,942,000	0.079	67,822
<b>Indicated</b>	167,433,000	0.059	217,782,000
<b>Inferred</b>	33,067,000	0.060	43,740,000
<b>Total Measured &amp; Indicated</b>	212,907,000	0.063	295,699,000
<b>Total Inferred</b>	24,973,000	0.054	29,730,000
<b>Total Measured &amp; Indicated</b>	206,375,000	0.063	285,604,000
<b>Total Inferred</b>	33,067,000	0.060	43,740,000

### ***Permitting Status***

The BC Environmental Assessment Office has received Adanac's application and began formal initiation of the review period on August 4<sup>th</sup>. In our December update, we reported that permitting was expected in the 1<sup>st</sup> quarter 2007. According to management, this process has been delayed and permitting is expected in the middle of 2007, likely June. In April 2007, the company announced that they had received a mining lease from British Columbia's Ministry of Energy Mines and Petroleum Resources. This mining lease covers the company's main mining area with a buffer zone. This is an important step in moving forward towards construction and mine development, but not the final step.

### ***First Nations Relations***

Adanac has garnered positive press recently due to their ground-breaking relationship with the Taku River Tlingit First Nation (TRTFN). Historically, there has been conflict between mining and First Nations regarding land ownership and land use policies. Adanac's relationship with the TRTFN has established a precedent for more open dialogue between First Nations and mining companies that wish to work on aboriginal land. This model works to minimize land and aquatic impacts on First Nations territory, as well as respect and benefit TRTFN members and their land rights in the long term. Currently, the company is in Phase II of their agreement with TRTFN, which goes up to the environmental assessment permitting that is expected in the middle of 2007.

### ***Further Metallurgical Work***

G&T Metallurgical Services completed laboratory and pilot plant testing of two tonnes of Ruby Creek ore. **This work was done to confirm the results of metallurgical work done as part of the bankable feasibility study, and largely improved upon previous recovery and processing estimates.** G&T processed reject drill core and found that molybdenum, associated with non-sulfide gangue (waste) minerals, is easily recoverable with re-grinding and cleaning of the primary flotation concentrate. The testing used three stages of cleaning. Through this analysis, G&T established a much higher molybdenum recovery of 92-93%, which is significantly higher than that established in the feasibility study.

G&T also created two composite samples at approximately 1 tonne per sample. The first, Composite #1, consisted of drill core and drill core rejects from the company's 2004, and 2005, vertical drilling campaigns. Composite #1 averaged 0.079% molybdenum. Samples from Composite #1 were used for the pilot plant scale processing test program. Composite #2 consisted of drill core rejects from the 2006 angle hole drilling. As previously discussed, the angle hole drilling program was designed to intersect higher-grade molybdenum fractures that were not accounted for in vertical drilling. Composite #2 averaged 0.139% molybdenum.

These composite samples were subjected to lock cycle testing. Lock cycle testing performs all of the processing methods and metallurgical procedures that will be used in the operating mill. A blend of Composite #1 and Composite #2 was processed to approximate a head grade of 0.10% molybdenum expected in the first 5 years of production. An important aspect of this testing were changes made from the testing performed for the feasibility study. The tests were performed at a coarser grind ( $P_{80}=300$  microns vs.  $P_{80}=210$  microns) and lower reagent consumption. This would allow higher thru-put at lower production costs in full-scale operation. The  $MoS_2$  concentrate produced from these pilot plant operations will be made available for evaluation by potential end user.

Composite	Concentrate (% Moly)	Overall Recovery (% Moly)
#1	52.3	92.1
<b>75% #1 and 25% #2</b>	54.0	93.2

### ***Engineering & Procurement***

The company awarded their Engineering and Procurement contract to AMEC Americas Limited in December 2006. When the contract was awarded, the company estimated that detailed engineering and production of working drawings would take 13 months to complete. The two companies are working together to get the engineering, bidding, and long delivery process equipment to begin construction in July 2007, and achieve production by Q1-2009.

Amec and Adanac have begun the procurement process by signing an agreement with PTI Premium Camp Services, who will supply the construction camp for the Ruby Creek Project. Ledcor Services will conduct pre-construction services. They have also announced the procurement of the ball mill from Outokumpu Technology Minerals Processing North America, and the primary gyratory crusher from FFE Minerals Canada Ltd. Procurement is a very important step, as procuring necessary items now will allow the company to move towards production more quickly. Construction on the camp is scheduled to begin in line with construction on the mine in July 2007.

### **Timeline**

The revised timeline for the Ruby Creek Project is as follows (previous estimates in parentheses):

**December (April) 2006-July (May) 2009:** Engineering and Procurement

**June (February) 2007:** Receive permits

**July (May) 2007-February 2008:** Commence construction and pit preparation

**February 2008-October 2008:** Mine commissioning

**January 2009 (October 2008):** Commence production

### **B&C Springs Property**

**Property Overview:** The company's primary focus has been advancing the Ruby Creek property to production, but they have been simultaneously advancing their 100% owned B&C Springs Property in Nevada, and recently announced a preliminary resource estimate. The 722 hectare B&C Springs property is located 2 hours east of Reno, and 50 kilometers south of Gabbs, Nevada. The deposit model is a buried skarn or hornfels enriched limestone with molybdenum and copper. There is no evidence of mineralization at the surface, but between 130–300 meters depth, significant molybdenum grades are found.

The 2007 resource estimate is the first ever calculated for the property, based on 56 diamond drill holes completed on the property. This resource estimate was calculated based on the following factors:

<b>Molybdenum (Mo) Price</b>	US\$25
<b>Molybdenum Recovery</b>	80%
<b>Copper (Cu) Price</b>	US\$4
<b>Copper Recovery</b>	70%

### **Resource Estimate:**

Scenario	Cut-off Grade	Indicated Resource				
		Tonnage	Mo (%)	Cu (%)	Mo lbs	Cu lbs
Open Pit	\$10/tonne	96,073,706	0.048	0.068	110.9 mill	144 mill
Underground	\$75/tonne	2,582,350	0.234	0.334		

**Commentary:** These resource estimates were calculated based on the mining scenario. At this time, the company is pursuing the more advanced stage Ruby Creek property and has not determined what the future status of the B&C Springs Property is. Due to the depth of the deposit, open pit mining may incur significant dilution, but underground mining would be more expensive. Market conditions will determine what scenario the company may choose if they choose to advance the B&C Springs property to production.

**Exploration Program:** When the company chooses to advance the B&C Springs property, they will likely drill approximately 30 holes to explore the limits of the known mineralization and extensions of mineralization to the north and west. Norman Tribe & Associates, the consulting firm that calculated the resource, believes that an additional 304 in-fill holes would have to be drilled to upgrade the deposit to measured status.

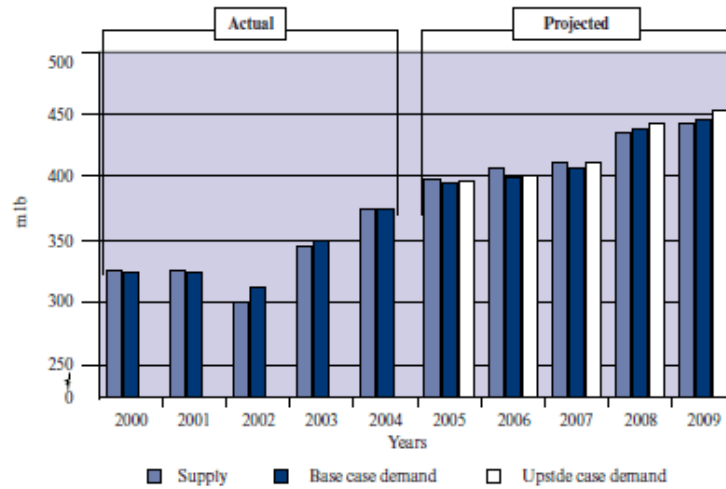
### **Industry Analysis**

Adanac's Ruby Creek property is located in a very favorable location for mining molybdenum. We believe there has been an increase in investors' confidence recently, in molybdenum projects in British Columbia (B.C.), Canada. B.C. is now known as one of the leading producers of molybdenum in the world. According to BC STATS and the BC Ministry of Advanced Education, molybdenum is now the 2nd most important metal mined in BC, based on value.

**Existence and Characteristic:** Molybdenum occurs primarily as molybdenite ( $\text{MoS}_2$ ) in porphyry deposits in the USA, Canada, Chile, China and Greenland both as a primary deposit and also associated with copper. Based on Mo production in 2004, Canada was ranked 5th in the world behind the U.S, Chile, China and Peru. Canada's production was 6% of the global production. Molybdenum has a very high melting point, making it ideal for alloys used in aircraft engines, missiles and petrochemical plants.

**Demand for Molybdenum:** Demand for Molybdenum comes primarily from the steel industry. According to the International Molybdenum Association (IMOA), demand from the **manufacturing of tools, high-speed steel, stainless steel and low alloy steel accounts for about 80% of total molybdenum consumption.** Demand for molybdenum has also increased recently because of its use as a reducer of sulfur in crude oil. One of the applications, which we believe is very pertinent in current market conditions, is the **use of molybdenum in the pipework for the offshore oil and gas industry.** According to the IMOA, most corrosion resistant stainless steels contain about 6.0% - 7.3% molybdenum. High growth in the energy sector has contributed to the growth in global demand for molybdenum, due to increased demand for the metal for new and replacement pipelines.

**Global demand is expected to outpace supply:** The chart on the next page shows historic world molybdenum supply and demand for the period 2000 to 2004, along with CRU Group's projections. As the chart shows, demand is expected to exceed supply in 2008, and 2009. CRU projects a molybdenum deficit of 6million pounds by 2009 in the base case scenario.

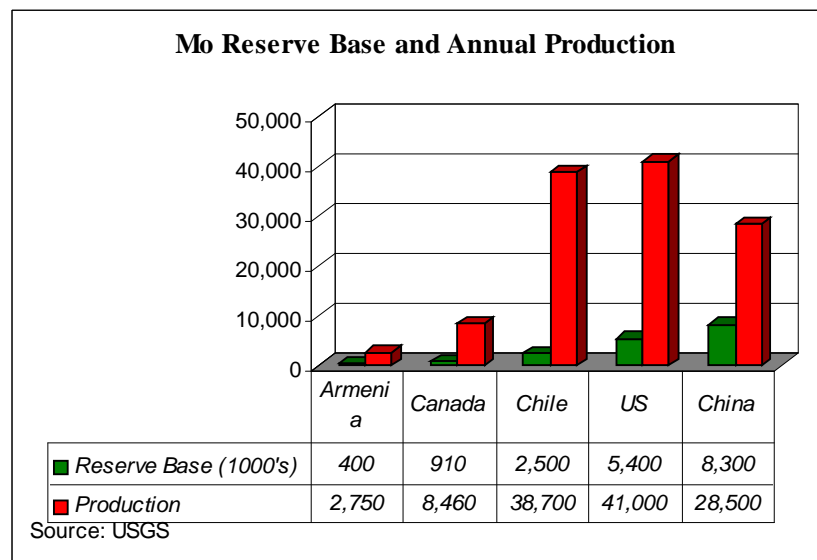


Source: CRU Group

In the next section, we illustrate the major factors that, we believe, will drive molybdenum prices going forward.

**Increasing demand for steel in China:** The increasing demand for steel has been one of the major drivers of demand for molybdenum. China accounted for about 31% of total global steel demand in 2005, and is the largest consumer of the steel in the world (*RNCOS*). According to Abare, demand for steel in China is expected to increase from 355 million tonnes in 2005, to 445 million tonnes in 2007. Global stainless steel production is estimated to have increased by 14.3% yoy in 2006. According to Goldman Sachs, stainless steel production in China will increase by 32%, 33% and 23% in 2006, 2007, and 2008 respectively.

**Global supply from China is expected to drop:** The chart below shows the top 5 countries ranked based on total identified resources of molybdenum.





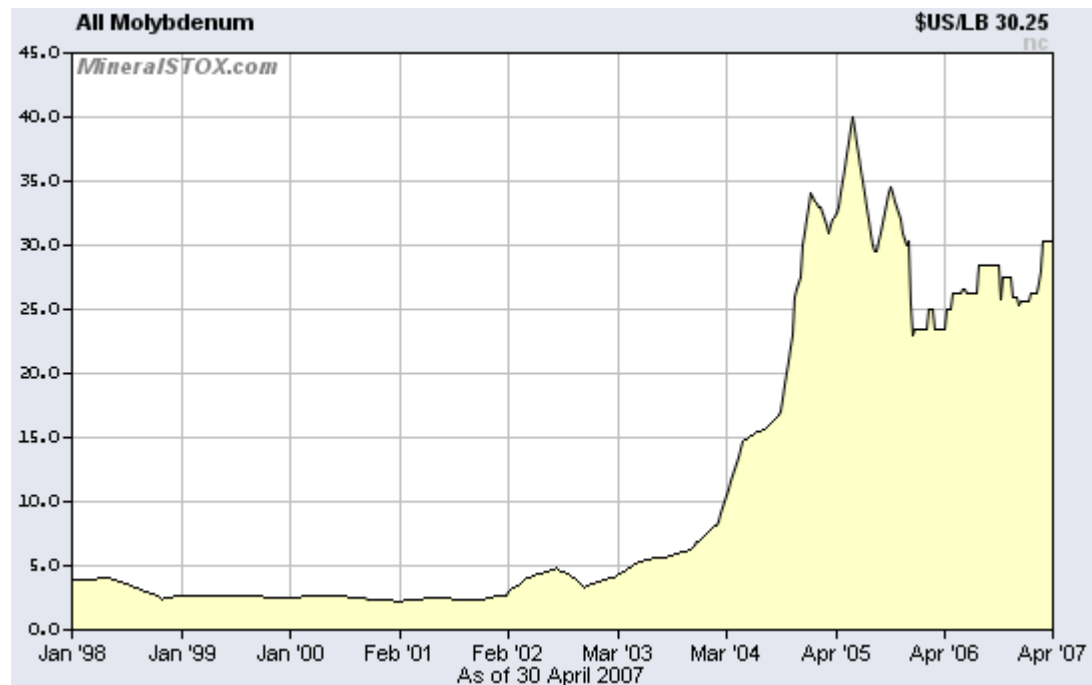
China has the world's largest molybdenum reserve base. According to the USGS, identified resources amount to about 8.3 million metric tons of molybdenum in China, which is approximately 43.7% of the total identified molybdenum resources in the world. However, when it comes to production, China contributed only 17.5% of world production in 2005. As shown in the chart, annual production in China is much lower compared to the U.S or Chile. The low production rate in China is because **China has shut down one-third of its production capacity** for environmental and other reasons for an indefinite period.

Additionally, China's molybdenum exports are expected to decrease further as the country imposed (in November 2006) a 10% export duty on molybdenum oxide and ferromolybdenum. In order to conserve molybdenum, China is also planning to introduce a quota system for molybdenum. According to China Nonferrous Metals News, China's molybdenum exports are expected to decrease by 10%, and export permission will now only be granted to exporters with export volumes of over 3,000 tonnes in the past 3 years, and traders in at least 1,000 tones in the past 3 years.

**Tight roasting capacity:** Molybdenite concentrate has to be roasted to convert it into molybdic oxide / ferromolybdenum – the form in which molybdenum is normally supplied to end users. Currently, there exists a shortage in global roasting capacity. The major limitations of roasting molybdenum ores are that the process is not environmentally friendly, and roasters are very expensive to build. Even though molybdenum supplies are estimated to be abundant, roasting capacity has not kept pace with increasing molybdenum production. Tight roasting capacity is expected to be a bottleneck in molybdenum production worldwide.

**Investment demand could rise:** The introduction of gold and silver ETFs have contributed significantly to driving the prices of those commodities higher in 2006. In early March 2007, Eric Sprott (founder of Sprott Asset Management) announced his intentions to launch an IPO for the Sprott Molybdenum Participation Corp., which will buy and sell actual molybdenum and invest in molybdenum exploration and production companies. We believe the introduction of an investment fund will positively impact molybdenum prices going forward, although the impact will be of lighter compared to gold and silver. We believe the impact will be lighter, primarily, because molybdenum, unlike gold, is generally priced based on its supply-demand fundamentals.

**Molybdenum prices:** The chart on the next page shows molybdenum prices since January 1998.



Molybdenum prices were highly volatile in 2004, and 2005, and less volatile in 2006. As of May 8, 2007, molybdenum was trading at US\$30.25/lb., which reflects a year to date increase of about 23%. Current prices have increased more than tenfold since the beginning of the century. As of January 2000, the price of molybdenum was US\$2.68.

**Forecast:** We maintain our long-term forecasts on molybdenum prices mentioned in our initial report. Based on our review of the factors affecting molybdenum prices, we believe that prices, though expected to gradually decline throughout our forecast period, will stay higher than their historical average of US\$10.8/lb (average of prices during Jan 2000 –September 2006) in this decade, due to the following:

- Strong demand from China and the global market for stainless steel
- Expected decrease in Mo exports by China
- Increasing demand from the oil sector
- Longer lead times to build new molybdenum mines
- Tight roaster capacity
- Increasing investment demand
- Not easily substitutable due to its unique characteristics, availability and versatility

### Financials

Cash and working capital were \$13.33 million and \$12.93 million, respectively, at the end of Q3-2006 (end of January 2007), compared to \$3.38 million and \$3.22 million at the end of FY2005 (end of April 2006). AUA had a net loss of \$4.48 million (eps: -\$0.07) in the first 9 months of FY2006, compared to a net loss of \$2.68 million (eps: - \$0.07) during the same period in the previous year. During the first 6 months of FY2006, the company spent \$2.68 million on exploration, compared to \$3.56 million during the same period last year.

The chart below shows the company's cash and liquidity position.

	2004	2005	2006	Q3-2006
Current Ratio	0.94	5.68	9.76	12.18
Working Capital (in \$)	(1,756)	1,960,939	3,220,601	12,926,645
LT Debt	-	-	-	-
Burn Rate (in \$)	(24,234)	(320,138)	(663,014)	(1,261,064)
Cash from Financing (in \$)	563,700	5,808,798	9,179,698	21,300,911

We estimate that AUA's burn rate (sum of negative cash flows from operating and investing activities) was \$1.26 million per month during the first 9 months of FY2006, compared to \$0.66 million per month during FY2005 (12-month period).

**Recent Financings:** In November 2006, the company announced its intentions to raise \$24 million through two private placements, by issuing 23.54 million units (each unit will consist 1 common share and 1 share purchase warrant) at \$1.02 per unit. Olympus Securities, LLC ("Olympus"), of New York, and D&D Securities Company ("D&D") will act as agents for the two private placements.

**Since the announcement, the company has raised about \$20.84 million through 4 tranches.** In the first 3 tranches, AUA raised \$13.36 million by issuing 13.01 million units at \$1.02 per unit. In the 4<sup>th</sup> tranche (which was completed in March 2007), the company raised \$7.50 million by issuing 3.95 million units at a unit price of \$1.90.

In addition to the \$24 million financing, the company recently completed a **bought deal financing for \$40.60 million** by issuing 21.39 million units (1 common and one-half of one common share purchase warrant) at a unit price of \$1.90.

**Stock options and warrants outstanding:** At the end of January 2007, the company had 9.03 million stock options outstanding with exercise prices ranging between \$0.10 - \$1.20 and maturity dates between November 2008 – January 2012. The company also had 16.89 million warrants outstanding with exercise prices ranging between \$0.75 - \$1.50, and expiry dates between June 2007 – July 2008. **If all the 'in-the-money' warrants are exercised in 2007, we expect the company to raise an additional \$18.25 million.**

## Valuation

Our fair value estimate on AUA is based on the Net Present Value (NPV) of the Ruby Creek Project calculated by Wardrop. According to Wardrop, the before-tax valuation on AUA's Ruby Creek project is \$245.21 million. Our revised fair value estimate on AUA, based on the NPV calculated by Wardrop is \$2.31, down from our previous estimate of \$3.57. The NPV (calculated by Wardrop) does not account for the increase in resource estimates, and hence we believe that this valuation is a very conservative estimate

NPV Summary	
Average NPV (after tax)	\$171,644,961
Working Capital	\$79,855,396
Shares (diluted)	108,651,270
Value per share (diluted)	\$2.31

Valuation declined primarily due to stock dilution. All the financings done by AUA since our previous report were at prices much lower than our fair value estimate, as a result, the considerable increase in outstanding shares led to the drop in our fair value estimate.

Our revised real options valuation on AUA is \$5.85 per share, up from our previous estimate on \$5.77 per share.

<b>Real Options Valuation Model</b>	
Estd. Mineral Reserves & Half of Resources (lbs)	310,566,707
Estd. Value of Mo if extracted today	\$1,715,881,055
Molybdenum Price	\$15 / lb
Operating Cost	\$11.25/tonne
Initial Development Cost	\$434.4 million
Annualized Standard Deviation of Mo Prices	33%
Project Life (years)	32
Riskfree Rate	4.26%
<b>Value of the option</b>	<b>\$556,121,310</b>
Working Capital	79,855,396
Shares (diluted)	108,651,270
<b>Value per share</b>	<b>\$5.85</b>

The revised valuation accounts for the increases in resource estimates and molybdenum prices. Eventhough molybdenum is currently trading at US\$30/lb, we have used a price of US\$15/lb in our model, for conservatism. *(Note that the real options valuation model allows us to use current molybdenum prices in the model.)*. The revised fair value changed little, as the increase in valuation due to increases in resource estimates, and molybdenum prices, was offset by stock dilution.

### **Rating**

**Based on our revised valuation models and review of the Ruby Creek project, we reiterate our BUY rating and raise our fair value estimate on AUA to \$3.25 per share (from \$3.00).** The revised fair value estimate reflects an upside potential of 44.4% from current price levels.

### **Risks**

The following risks may cause our estimates to differ from actual results (not exhaustive):

- The company will have to continue to rely on equity and /or debt financing to carry out its exploration and development activities. The company's ability to raise capital will depend on its share price. The lower the share price, the more shares have to be issued.
- Like other junior mining companies, Adanac's success will be dependent on the development of key projects, and is subject to risks related to mineral grades and recovery.
- Like other primary molybdenum producers, there exists the threat of competition from secondary Molybdenum producers (copper –moly producers).
- The share price is highly correlated to the price of molybdenum. Although the price of molybdenum has recovered from its lows of the past few years, a significant long-term drop in the price of molybdenum would negatively affect the value of Adanac's shares.

**Fundamental Research Corp. Equity Rating Scale:****Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk**Hold** – Annual expected rate of return is between 5% and 12%**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.**Fundamental Research Corp. Risk Rating Scale:****1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.**Disclaimers and Disclosure**

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