

# Fundamental

## Research Corp.

*Investment Analysis for Intelligent Investors*

June 5, 2019

### Monarch Gold Corporation (TSX: MQR): Custom Milling Revenues up 34% YoY in Q3

**Sector/Industry: Junior Mining / Exploration**

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

#### Market Data (as of June 5, 2019)

Current Price	C\$0.22
Fair Value	C\$0.70
Rating*	BUY
Risk*	4
52 Week Range	C\$0.15 - C\$0.33
Shares O/S	248,721,119
Market Cap	C\$54.72 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.2x
YoY Return	-21.4%
YoY TSX	0.6%

\*see back of report for rating and risk definitions

\*all figures in C\$ unless otherwise stated.



#### Highlights

- In Q3-FY2019 (quarter ended March 31, 2019), Monarch Gold Corporation ("MQR", "company") reported \$5.11 million in revenues, down 48% YoY. Custom milling operations, which accounted for 51% of the revenues, were up 34% YoY, while revenues from the Beaufor mine were down 68% YoY. The decline in revenues from Beaufor was expected as the company had announced in December 2018, that it would suspend production at Beaufor.
- Custom milling operations currently have an annual run rate of approximately \$10.5 - \$11.0 million, which is in line with our forecast at the time of our previous report.
- In May 2019, the company acquired 14% of the outstanding shares of a gold junior, Unigold Inc. (TSXV: UGD), for \$0.75 million.
- Management remains focused on seeking financing / joint venture partners on the flagship Wasamac asset.
- The company also recently completed resource expansion drill programs at the Croinor gold and McKenzie Break properties.
- MQR's properties currently hold measured and indicated resources totaling 3.16 Moz, and inferred resources of 0.44 Moz, implying an Enterprise Value ("EV") of just \$17 per oz versus the comparables average of \$52 per oz.
- **We continue to believe the current share price does not fully value Wasamac, AND assigns zero value to any of the other projects in MQR's portfolio.**

#### Key Financial Data (FYE - June 30)

(C \$)	2017	2018	2019 (9M)
Cash	\$7,356,155	\$15,046,248	\$4,848,417
Working Capital	\$5,798,654	\$6,928,023	\$4,842,048
Mineral Assets + PPE	\$16,606,843	\$46,197,575	\$54,269,792
Total Assets	\$26,657,724	\$73,665,169	\$69,743,397
Revenues	-	\$30,125,421	\$24,303,607
Net Income (Loss)	\$2,281,190	-\$4,776,851	-\$440,697
EPS	-\$0.02	-\$0.02	\$0.00

- We are not presenting EPS forecasts as the company is expected to suspend production at Beaufor by end of June 2019.

## Financial Results

Q3-FY2019 revenues were down 48% YoY to \$5.11 million. Nine month revenues were up 21% YoY to \$24.30 million.

	Q3-2018	Q3-2019	YoY	2018 (9M)	2019 (9M)	YoY
Beaufor Mine	\$7,817,778	\$2,478,718	-68%	\$16,452,199	\$16,025,305	-3%
Custom Milling	\$1,962,225	\$2,625,163	34%	\$3,616,259	\$8,236,806	128%
Other	\$40,108	\$10,366	-74%	\$49,577	\$41,496	-16%
<b>Revenue</b>	<b>\$9,820,111</b>	<b>\$5,114,247</b>	<b>-48%</b>	<b>\$20,118,035</b>	<b>\$24,303,607</b>	<b>21%</b>
COGS	-\$9,533,396	-\$4,900,764	-49%	-\$17,853,684	-\$20,799,904	17%
Gross Profit	\$286,715	\$213,483	-26%	\$2,264,351	\$3,503,703	55%

Approximately 51% of Q3-FY2019 revenues came from custom milling, while the remaining came from the sale of 1,427 oz of gold from the Beaufor mine. For the nine month period, 34% came from custom milling, and the remaining came from the sale of 9,868 oz of gold from the Beaufor mine. **In Q3, custom milling operations were up 34% YoY, while revenues from the Beaufor mine were down 68% YoY.** The production decline at Beaufor was expected, as the company had announced in December 2018, that it would suspend production (by end of June 2019) due to lower than expected grades. Note the steep YoY decline in grades, and corresponding increase in production costs, in the table below. MQR intends to continue exploration at the Beaufor mine to potentially increase its resource, prior to resuming production.

### Production – Custom Milling and Beaufor Mine

	Q3-2018	Q3-2019	2018 (9M)	2019 (9M)
Custom Milling (tonnes)				175,791
<b>Beaufor Mine</b>				
Production (oz)	4,932	1,328	10,376	9,653
Sales (oz)	4,823	1,427	10,267	9,868
Ore Mined	32,866	13,110	67,871	68,564
Grade (gpt)	4.7	3.2	4.8	4.5
Recovery (%)	98.91%	97.80%	98.78%	98.20%
Average Selling Price (\$/oz)	\$1,624	\$1,737	\$1,602	\$1,624
Production Cash Cost (\$/oz)	\$1,642	\$1,896	\$1,490	\$1,457
All-in Sustaining Cost (\$/oz)	\$1,980	\$1,954	\$1,795	\$1,544
Average Selling Price (US\$/oz)	\$1,284	\$1,307	\$1,263	\$1,231
Production Cash Cost (US\$/oz)	\$1,298	\$1,426	\$1,175	\$1,105
All-in Sustaining Cost (US\$/oz)	\$1,565	\$1,470	\$1,415	\$1,171

\*Cost per oz estimates were calculated net of revenues from custom milling.

Source: FRC / Data Source: Company

**Custom milling (Camflo mill) operations currently have an annual run rate of approximately \$10.5 - \$11.0 million, which is in line with our forecast at the time of our previous report. Gross margins of custom milling revenues are yet to be disclosed, however, we speculate margins to be in the 10% range.**

Camflo's current clients include:

- Eldorado Gold Corporation (TSX: ELD) to process ore from the Lamaque gold mine.
- Wallbridge Mining Company Limited (TSX: WM) to process ore from the Fenelon gold property.
- Nottaway Resources Inc. to process ore from the Vezza mine.

**MQR's Beacon mill (fully permitted 750-tpd capacity mill) remains on care and maintenance, but is capable of commencing operations upon receipt of operating permits and custom milling contracts. At full capacity, we estimate the Camflo and Beacon mills could generate approximately \$20 million in revenues, with a gross profit of approximately \$2 million.**

Gross margins improved as a result of the significant increase in custom milling. Although the company successfully lowered its G&A expense by 7% YoY to \$1.43 million in Q3-FY2019, EBITDA dropped by 23% YoY to -\$1.21 million. For the nine month period, EBITDA was down 5% YoY to -\$1.89 million.

	Q3-2018	Q3-2019	2018 (9M)	2019 (9M)
Gross	2.9%	4.2%	11.3%	14.4%
EBITDA	-16.0%	-23.7%	-9.8%	-7.8%
Net	-22.0%	-15.0%	-9.9%	-1.8%

*Source: FRC / Data Source: Company Financial Statements*

However, net losses were lower as the company recorded approximately \$1 million in gains from the sale of certain royalties and from FOREX. MQR reported a net loss of \$0.77 million (EPS: -\$0.00) in Q3-FY2019, versus \$2.16 million (EPS: -\$0.01) in Q3-FY2018. For the nine month period, the company reported a net loss of \$0.44 million (EPS: -\$0.00) versus \$1.99 million (EPS: -\$0.01) in the comparable period in the previous year.

As Beaufor's production will be suspended this month, we continue to not provide any EPS projections.

Free cash flows were -\$14.05 million in the first nine months of FY2019, versus -\$4.96 million in the same period last year. The significantly higher negative cash flow in FY2019 was a result of negative cash from operations (\$1.82 million), cash tied in working capital (\$4.94 million), and exploration (\$6.71 million).

Summary of Cash Flows	2018 (9M)	2019 (9M)
Fund Flows from Operations	-\$4,234,647	-\$1,819,628
Cash Flows from Operations	-\$1,772,217	-\$6,755,510
Cash Flows from Investing	-\$7,925,187	-\$3,735,108
Cash Flows from Financing	\$20,433,438	\$292,787
Net Change	\$10,736,034	-\$10,197,831
Free Cash Flows	-\$4,963,083	-\$14,049,051

Source: FRC / Data Source: Company Financial Statements

At the end of Q3-FY2019 (quarter March 31, 2019) the company had cash and working capital of \$4.85 million and \$4.84 million, respectively. Debt to assets was at 8.2%. Debt includes the remaining payments related to the acquisition of Beacon, Swanson and McKenzie Break. The following table summarizes the company's liquidity position.

(in C\$)	2017	2018	Q3-2019
Cash	\$7,356,155	\$15,046,248	\$4,848,417
Working Capital	\$5,798,654	\$6,928,023	\$4,842,048
Current Ratio	3.86	1.52	1.76
ST Debt	-	\$2,046,258	\$801,769
LT Debt	3,346,971.00	\$5,763,525	\$5,747,762
LT Debt/ Asset	12.6%	7.8%	8.2%

Source: FRC / Data Source: Company Financial Statements

Subsequent to the quarter-end, the company raised \$2 million by issuing 6.06 million flow-through shares at \$0.33 per share.

We estimate MQR has 9.39 million options (weighted average exercise price of \$0.29) and 24.08 million warrants outstanding (weighted average exercise price of \$0.41). Currently, 2.25 million options are in-the-money. The company can raise up to \$0.25 million if these options are exercised.

In May 2019, the company acquired 6.50 million shares of a junior, Unigold Inc., for 3.25 million shares of MQR (valued at \$0.75 million).

UGD holds a project in the Dominican Republic, which has an inferred resource (calculated in 2013) of 2 Moz of gold at 1.59 g/t Au. Osisko Gold Royalties Ltd. / TSX: OR (14.7%) and a company owned by Rob McEwen (7.3%), are the other major shareholders of UGD. MQR's investment reflects 14% of the outstanding shares of Unigold. A 14% interest in UGD for \$0.75 million reflects a valuation of just \$2.6 per oz. This compares to our global estimate of \$35 - \$55 per oz for gold juniors.

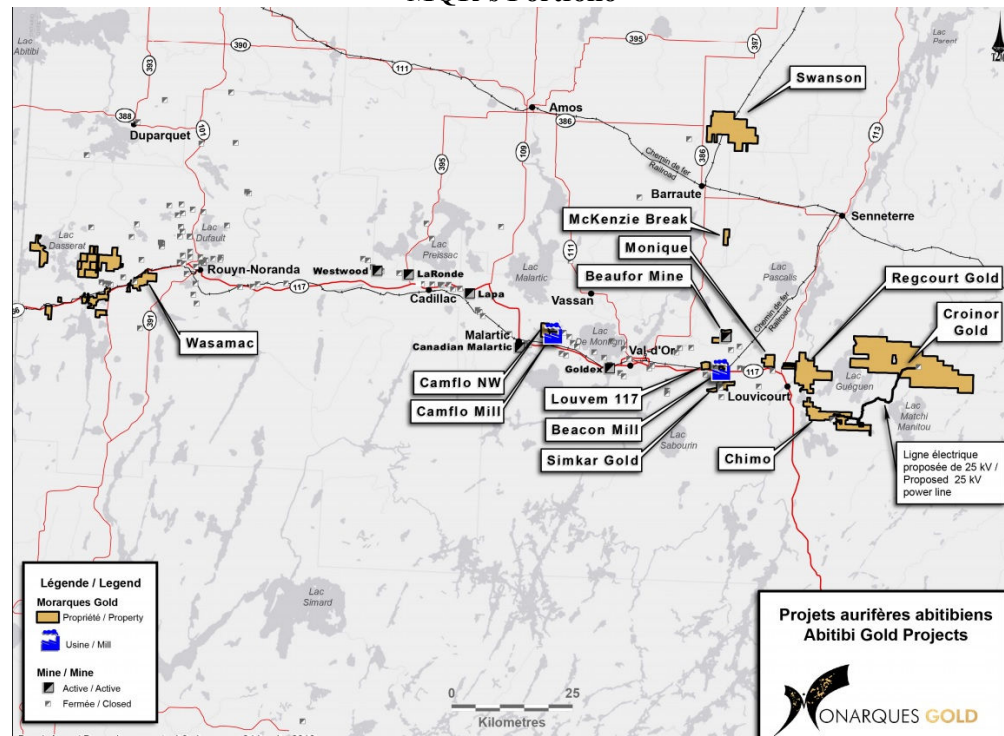
## Investment in Unigold

**Upcoming Catalysts**

The following outlines management's key objectives for the year:

- Advance permitting, and seek financing / JV partners on Wasamac.
- Increase resource estimates of the Croinor gold and McKenzie Break properties; the company recently completed a 1,750 m (seven holes) drilling program focused on an area approximately 1 km from the existing resource. The 2018 drill program at McKenzie Break included 61 holes totaling 13,945 m.
- Expand custom milling revenues
- Evaluate options to bring Beaufor back into production

**MQR's Portfolio**



**MQR's key assets include two mills (Camflo and Beacon), five advanced stage gold projects (Wasamac, Croinor Gold, Beaufor, McKenzie Break and Swanson) and two exploration projects covering more than 300 sq. km in the Abitibi region.**

*Source: Company*

In December 2018, MQR completed a Feasibility Study ("FS") on the Wasamac gold project. Based on a 11 year mine life (142 Koz per year), the project is estimated to have an AT-NPV @ 5% of \$311 million, and an AT-IRR of 18.5%.



### FS Summary

Description	Unit	Value
Long term gold price	US\$/oz	1,300
Exchange rate	C\$:US\$	1.31
Total tonnes mined	M Tonnes	21.5
Average diluted gold grade	g/t	2.56
Average gold recovery rate	%	88.2
Total gold contained	koz	1,767
Total gold production	koz	1,558
Average annual gold production	oz per year	142,000
Mine life	year	11
Production cash costs	\$/oz	720
Production cash costs	US\$/oz	550
All-in sustaining costs (AISC)	\$/oz	826
All-in sustaining costs (AISC)	US\$/oz	630
Estimated capital expenditure		
Total preproduction capital cost	\$M	464
Sustaining capital	\$M	175
Site restoration cost	\$M	6
Salvage value	\$M	(16)
<b>Pre-tax summary</b>		
NPV (5%)	\$M	522
IRR	%	23.6
Payback period	years	3.6
<b>After-tax summary</b>		
NPV (5%)	\$M	311
IRR	%	18.5
Payback period	years	3.9

Source: Company

The NPV is robust as shown below, by its sensitivity to gold prices, exchange rate and discount rates. The project has an AT-NPV at 5% of \$103 million even at a gold price of US\$1,000 per oz.

### Sensitivity Analysis (BT-NPV)

	Discount rate						
	0%	3%	5%	7%	9%	11%	13%
<b>NPV</b>	574.6	651.2	521.5	414.8	326.5	253.2	192.1

### Sensitivity Analysis (BT-NPV at 5% and BT-IRR)

CAD:USD	Gold Price (US\$/oz)							
	\$1,000	\$1,100	\$1,200	\$1,250	\$1,300	\$1,400	\$1,500	\$1,600
<b>1.11</b>	(109.2)	9.2	127.6	186.8	246.0	364.4	482.8	601.2
<b>1.18</b>	(39.6)	85.8	211.2	273.9	336.5	461.9	587.3	712.7
<b>1.25</b>	38.8	172.0	305.2	371.8	438.4	571.6	704.8	838.0
<b>1.31</b>	102.7	242.3	381.9	451.7	521.5	661.1	800.7	940.3
<b>1.43</b>	229.1	381.3	533.6	609.7	685.8	838.0	990.3	1,142.5
<b>1.54</b>	346.2	510.1	674.1	756.1	838.0	1,002.0	1,165.9	1,329.9
<b>1.67</b>	482.8	660.4	838.0	926.8	1,015.6	1,193.2	1,370.8	1,548.5

CAD:USD	Gold Price (US\$/oz)							
	\$1,000	\$1,100	\$1,200	\$1,250	\$1,300	\$1,400	\$1,500	\$1,600
<b>1.11</b>	(0.2%)	5.4%	10.3%	12.5%	14.6%	18.6%	22.4%	25.9%
<b>1.18</b>	3.2%	8.6%	13.4%	15.6%	17.7%	21.7%	25.5%	29.1%
<b>1.25</b>	6.7%	11.9%	16.7%	18.9%	21.0%	25.1%	28.9%	32.5%
<b>1.31</b>	9.3%	14.5%	19.2%	21.4%	23.6%	27.7%	31.5%	35.2%
<b>1.43</b>	14.0%	19.2%	23.9%	26.2%	28.4%	32.5%	36.5%	40.3%
<b>1.54</b>	18.0%	23.2%	28.0%	30.3%	32.5%	36.8%	40.9%	44.8%
<b>1.67</b>	22.4%	27.6%	32.5%	34.9%	37.2%	41.6%	45.8%	49.8%

Source: Company

The initial CAPEX is estimated at \$464 million, and the operating cost is estimated at just

## Valuation

\$692 per oz. Custom milling is expected to lower the project's CAPEX by about \$230 million, which will significantly enhance the expected IRR. The proposed mine infrastructure will be next to the Trans-Canada highway and just 200 m from a railway leading to key regional custom milling facilities.

The following tables shows the resource estimates of all of MQR's projects. **The properties hold reserves of 1.93 Moz. Reserves are included in measured and indicated resources totaling 3.16 Moz, and inferred resources of 0.44 Moz.**

### Consolidated Resource Estimates

	Tonnes	Grade (g/t Au)	Ounces		Tonnes (metric)	Grade (g/t Au)	Ounces
<b>Wasamac Property</b>				<b>Beaufor Mine</b>			
Proven Reserves	1,028,000	2.66	88,000	Proven Reserves	28,100	5.95	5,400
Probable Reserves	20,427,000	2.56	1,679,000	Probable Reserves	111,500	7.05	25,200
Total Proven & Probable Reserves	21,455,000	2.56	1,767,000	Total Proven & Probable Reserves	139,600	6.83	30,600
Measured Resources	3,990,000	2.52	323,300	Measured Resources	74,400	6.71	16,100
Indicated Resources	25,870,000	2.72	2,264,500	Indicated Resources	271,700	7.93	69,300
Total Measured & Indicated Resources	29,860,000	2.70	2,587,800	Total Measured & Indicated Resources	346,100	7.67	85,400
Inferred Resources	4,160,000	2.20	293,900	Inferred Resources	46,100	8.34	12,400
<b>Croinor Gold Mine</b>				<b>Simkar Gold Property</b>			
Proven Reserves	166,540	5.33	28,543				
Probable Reserves	436,454	7.18	100,759				
Total Proven & Probable Reserves	602,994	6.66	129,302				
Measured Resources	80,100	8.44	21,700	Measured Resources	33,570	4.71	5,079
Indicated Resources	724,500	9.20	214,300	Indicated Resources	208,470	5.66	37,905
Total Measured & Indicated Resources	804,600	9.12	236,000	Total Measured & Indicated Resources	242,040	5.52	42,984
Inferred Resources	160,800	7.42	38,400	Inferred Resources	98,320	6.36	20,103
<b>McKenzie Break Property</b>				<b>Swanson Property</b>			
Indicated Resources (pit)	939,860	1.59	48,133	Indicated Resources (pit)	1,694,000	1.8	98,100
Indicated Resources (UG)	281,739	5.9	53,448	Indicated Resources (UG)	58,100	3.17	5,900
Total Indicated Resources	1,221,599	2.58	101,581	Total Indicated Resources	1,752,100	1.85	104,000
Inferred Resources (pit)	304,677	1.52	14,897	Inferred Resources (pit)	17,400	2.53	1,400
Inferred Resources (UG)	270,103	5.66	49,130	Inferred Resources (UG)	56,600	3.1	5,600
Total Inferred Resources	574,780	2.58	64,027	Total Inferred Resources	74,000	1.85	7,000
<b>Total</b>							
Proven & Probable Reserves			1,926,902				
Measured & Indicated Resources			3,157,765				
Inferred Resources			435,830				

Source: FRC / Data Source: Company

We are maintaining our DCF valuation on Wasamac at \$111 million, which is now \$0.45 per share versus the previous \$0.47 per share estimate due to a lower share count at the time.

### Sensitivity of Wasamac's Valuation

		Gold Price (US\$/oz)				
		\$1,100	\$1,200	\$1,300	\$1,400	\$1,500
Discount Rate	7.0%	\$0.31	\$0.71	\$1.10	\$1.50	\$1.90
	9.0%	\$0.10	\$0.43	\$0.76	\$1.10	\$1.43
	11.5%	-\$0.10	\$0.17	\$0.45	\$0.72	\$0.99
	13.0%	-\$0.18	\$0.06	\$0.30	\$0.54	\$0.78
	15.0%	-\$0.27	-\$0.07	\$0.14	\$0.35	\$0.55

		Gold Price (US\$/oz)				
		\$1,100	\$1,200	\$1,300	\$1,400	\$1,500
Exchange Rate (C\$:US\$)	1.00	-\$0.37	-\$0.12	\$0.12	\$0.37	\$0.62
	1.05	-\$0.23	\$0.03	\$0.29	\$0.54	\$0.80
	1.10	-\$0.10	\$0.17	\$0.45	\$0.72	\$0.99
	1.20	\$0.17	\$0.47	\$0.77	\$1.06	\$1.36
	1.30	\$0.45	\$0.77	\$1.09	\$1.41	\$1.73

Source: FRC

**At the current share price of \$0.22 per share, the market discounts our value of \$0.45 per share on Wasamac by 51%, and assigns zero value to any of the other projects in MQR's portfolio.**

In order to value the entire portfolio, we continue to value MQR based on an average EV to resource ratio of comparable juniors. We estimate MQR's shares currently trade at just \$17 per oz versus the comparables average of \$52 per oz (previously \$50 per oz). Based on an average EV/resource ratio of \$52 per oz, we believe MQR should be trading at \$0.70 per share (previously \$0.71 per share due to a lower share count then). **We reiterate our BUY rating on MQR's shares with a risk rating of 4.**

### Risks

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

- The value of the company is dependent on gold prices.
- There is no guarantee that the Beaufor mine can be economically put back into production.
- Exploration and development risks at MQR's other assets.
- Permitting
- Access to capital and share dilution.

**We are maintaining our risk rating of 4.**



#### 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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