

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA  
Analyst

Martha Buckwalter-Davis, BA (Geology)  
Research Associate—Mining and Energy

Kevin Liu, BBA, BSc  
Research Associate

March 3, 2008

## Bell Resources Corporation (TSX.V: BL) – NI 43-101 compliant resource at La Balsa highlights potential

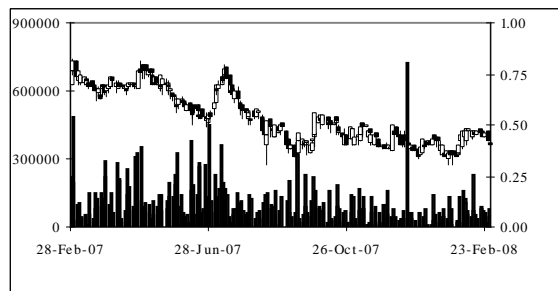
Sector/Industry: Junior Mining

[www.bellresources.com](http://www.bellresources.com)/[www.nexvucapital.com](http://www.nexvucapital.com)

### Market Data (as of February 29, 2008)

Current Price	C\$0.425
Fair Value	C\$0.80 (↓)
Rating*	BUY
Risk*	Highly Speculative
52 Week Range	C\$0.30 – C\$0.82
Shares O/S	64,480,623
Market Cap	C\$28.25 mm
Current Yield	N/A
P/E	N/A
P/B	2.80
YoY Return	-44.1%
YoY TSXV	-9.3%

\*see back of report for rating and risk definitions



### Investment Highlights

- Bell Resources expects the three-way merger with Grandcru Resources Corporation (TSX.V: GR) and Rogue River Resources Corp. (a private company) to close in Q2-2008.
- Rogue River's La Balsa project offers near term production potential and cash flow to fund exploration and development. A preliminary NI 43-101 compliant resource was announced indicating a large resource comprised of oxide, transitional, and sulfide mineralization.
- Bell has built a large, diversified, and strategic copper property portfolio in BC and the southwestern United States. The addition of Rogue River and Grandcru adds operations in Mexico and Chile.
- The company has continued to highlight the potential of the Sombrero Butte property.
- Our fair value estimate on the company dropped from \$1.17 per share to \$0.80 per share primarily because we dropped our long-term copper price forecasts.

### Key Financial Data (FYE - December 31) (C \$)

	2003	2004	2005	2006	2007 (9 mon)
Cash	98,989	277,508	1,411,535	1,560,480	884,263
Working Capital	(224,916)	(42,520)	1,260,299	1,478,565	(1,536,765)
Mineral Assets	501,302	1,267,623	2,866,992	7,021,230	10,270,923
Total Assets	682,194	1,597,046	4,445,575	8,818,210	12,595,912
Net Loss	(295,726)	(424,670)	(1,504,056)	(2,170,493)	(2,605,255)
Loss per Share	(0.02)	(0.02)	(0.05)	(0.05)	(0.05)

*Bell Resources Corporation is proposing a merger with Grandcru Resources Corporation and Rogue River Resources Corp. to create a copper focused company with a diverse property portfolio in BC, the southwestern US, Mexico, and Chile. Rogue River's La Balsa project offers near term production potential to finance exploration and development on the company's other advanced stage properties.*

**Overview**

Bell Resources is awaiting the closure of the proposed three-way amalgamation of Bell Resources Corporation, Grandcru Resources Corporation, and Rogue River Resources Corp. These three companies are under the Nexvu Capital Corp. umbrella and share common management, technical personnel, office space, and corporate strategy. This amalgamation is proposed to more efficiently advance the three companies' projects, benefit from exploration success, and utilize cash flow from the near term La Balsa Mine to build the company into a mid tier copper producer with a large property portfolio.

**La Balsa**

**Property Overview:** The 100% owned La Balsa property is an advanced stage copper property with a threefold growth strategy exploiting oxide, sulfide, and porphyry copper. The project is fully funded through definitive feasibility. Production of soluble copper is targeted to commence in Q2-2009. Due to infrastructure, accessibility, location, and geology, the La Balsa project is believed to be a low cost, high cash flow mine.

**Geology and Mineralization:** There are three different copper resources identified on the property. Three breccia pipes, La Virgen, Iguana Prieta, and Playa Azul, are the priority for production at this time. The oxidized cap of these three deposits is composed of acid soluble oxidized copper minerals. Copper sulfide mineralization, enriched in bornite, is found below the oxidized cap. The exploration to date provides evidence for a large copper porphyry body on the property, but it has not been drilled at this time. The company has identified a number of additional copper targets beyond the three known deposits that will be explored.

**Current Status:** A NI 43-101 compliant resource estimate was completed in January 2008. A definitive feasibility study is expected by June 2008. We believe, this will allow the company to raise money for development of the project. They expect to utilize debt and equity financing.

The company recently released high grade drilling results from a number of deposits on the property. Drilling is planned for the copper porphyry target in Q1-2008.

**Development Timeline:** Following the completion of the definitive feasibility study, the company plans to begin development and construction. The current capital expenditure estimate for production of soluble copper is US\$20 million. Production is expected in the first half of 2009, subject to completion of the feasibility study.

**Resource Estimate:** A NI 43-101 compliant resource estimate was completed in January 2008. The company's drilling has outlined potential to expand the oxide, sulfide, and porphyry resource outside of the La Virgen, Iguana Prieta, and Playa Azul breccia pipes. The current resource estimate is outlined in the table below.

Mineral Type	Class	K tonnes	Cu (%)	Cu (t)	Cu (M lb)
Oxide	Measured	1,069	1.16	12,370	27.3
	Indicated	986	0.89	8780	19.3
	Subtotal	2,055	1.03	21,150	46.6
	Inferred	186	0.63	1,170	2.6
Mixed	Measured	848	1.08	9,140	20.1
	Indicated	854	0.81	6,930	15.3
	Subtotal	1,702	0.94	16,060	35.4
	Inferred	150	0.62	930	2
Sulfide	Measured	4,086	0.74	30,410	67
	Indicated	3,574	0.58	20,670	45.6
	Subtotal	7,660	0.67	51,080	112.6
	Inferred	370	0.7	2,580	5.7
Total	Measured	6,003	0.86	51,920	114.5
	Indicated	5,414	0.67	36,370	80.2
	Subtotal	11,417	0.77	88,290	194.6
	Inferred	707	0.66	4,680	10.3

*Source: Bell Resources Corporation*

**Sombrero Butte Property Overview:** The 650 acre Sombrero Butte is a historic producer of copper in eastern Arizona. The company is targeting copper bearing breccia pipes as a quick route to production.

**Current Status:** A Phase II deep drilling program was completed between October 2007 and February 2008. 12 holes were drilled targeting the Magna and Victor Breccia Pipes and underlying porphyry mineralization. The results of this program indicate high-grade oxide mineralization in the breccia pipes, and the geological indicators are good for a deep seated porphyry system. We believe the company is making good progress on the property.

Breccia	Drillhole	Interval (m-m)	Width (m)	Grade %Cu
Magna	SB-23	282-354	72	0.88
Magna	SB-23	458-484	26	2.03
Victor's	SB-24	0-20	20	1.27
Victor's	SB-25	0-12	12	2.25
Victor's	SB-26	0-12	12	2.25
Victor's	SB-27	14-30	16	1.22
Victor's	SB-28	14-20	6	1.36
Victor's	SB-29	4-70	66	0.61
Victor's	SB-30	10-40	30	0.86
Victor's	SB-31	2.6-8	5.4	2.07
Victor's	SB-32	2-8	6	2.47
Victor's	SB-33	6-24	18	1.80
Victor's	SB-34	8-24	16	1.77

*Source for Data: Bell Resources Corporation*

**Kabba Property** **Property Overview:** This property is an early stage exploration property targeting a large buried copper porphyry deposit. The Kabba property is located along trend between Phelps Dodge's Bagdad Mine to the south and Mercator Minerals' Mineral Park Mine to the north.

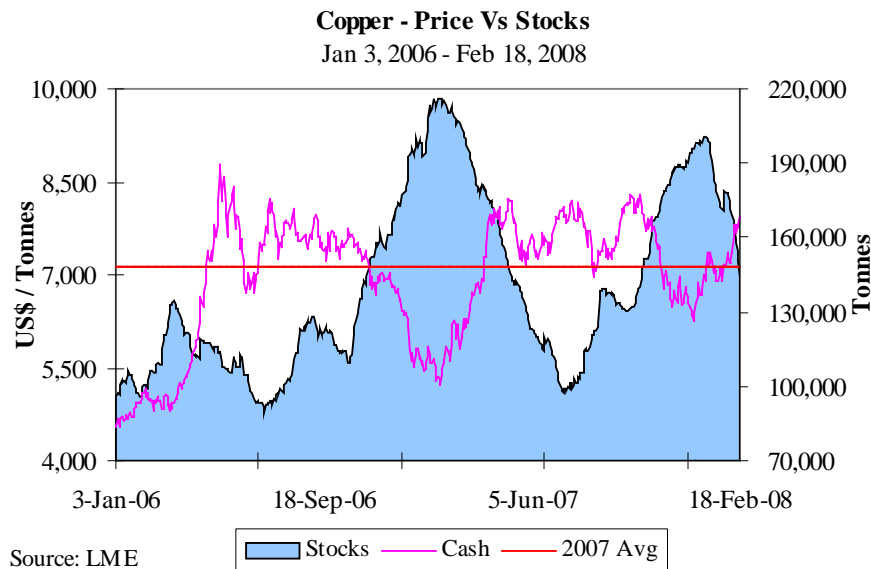
**Current Status:** The four hole, 3,360 meter drilling program in 2007 encountered porphyry related mineralization, but not the actual porphyry body. These holes will be very useful for guiding further exploration, which we believe is justified based on the potential size of the target at Kabba. The company has selected several new drilling sites based on these results, especially in areas where the thickness of gravel cover is expected to diminish. These drill sites have been permitted and drilling is expected in the first half of 2008.

**Outland Silver Bar Property** **Property Overview:** The Outland Silver Bar property in British Columbia has been optioned to Glen Hawk Minerals (TSX.V: GHM).

**Ownership:** Bell has the right to earn 100% interest in the property subject to a 2% NSR. Bell has provided Glen Hawk Minerals with the option to acquire a 60% interest. Glen Hawk will issue 600,000 shares to Bell over two years and assume payments under the underlying option agreement. Glen Hawk will be required to complete exploration expenditures of \$133,000 by October 20, 2008, and \$150,000 by October 20, 2009.

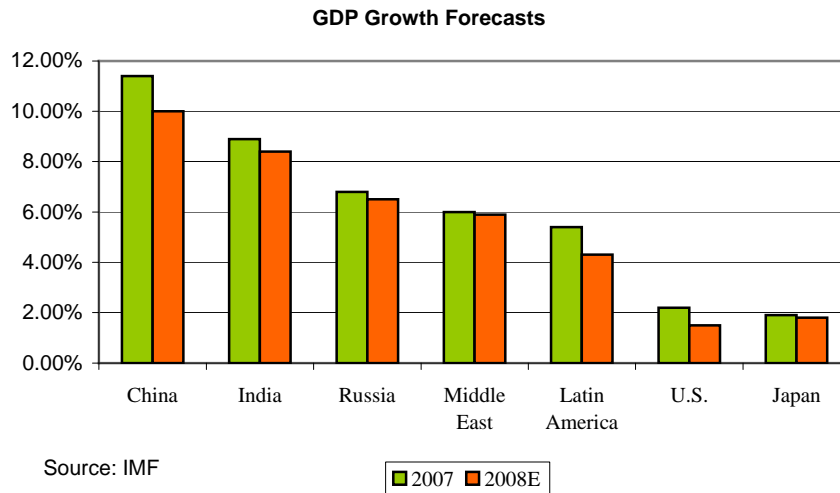
**Outlook on Copper**

As of February 28, 2008, copper was trading at US\$3.90/lb, which reflected a YOY increase of 77%.



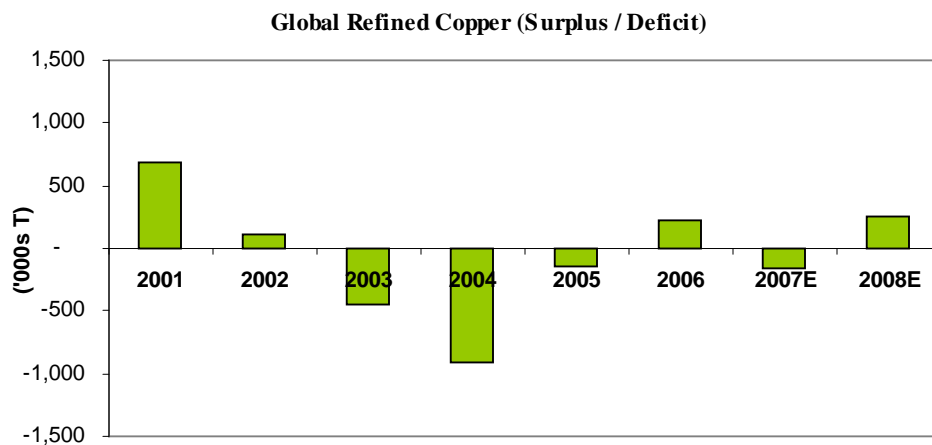
The recent increase in prices was due to a rapid drop in inventory levels. As of January 31, 2008, LME stocks were 144,375 tonnes, which reflects a YTD decrease of 27.4%.

We continue to believe that a slowdown in global economic growth in 2008 will negatively impact demand for most base metals, including copper. As shown in the chart below, GDP growth rates in most regions worldwide are expected to drop in 2008.



According to the International Monetary Fund, global GDP growth is expected to drop to 4.1% in 2008 (down from 5.4% in 2006 and about 6.0% in 2007). China is currently experiencing inflation of 7.1% (in January 2008), its highest inflation in 11 years. As a move to counter inflation and overheating, the Chinese Central Bank raised their interest rates six times in 2007. We believe rising interest rates in China will put downward pressure on growth in the Chinese economy. However, we believe, the consensus Chinese GDP growth forecast of 10% in 2008 (down from 11.4% in 2007) is still healthy enough to support global growth in copper demand.

**Supply/Deficit:** We believe that strong copper demand from China and India (both the countries combined, account for 25% of global copper consumption), slightly offset by slower demand growth in the U.S., led to the drop in the production surplus of refined copper from 0.23 million tonnes in 2006, to a deficit of 0.16 million tonnes in 2007. **The Global supply surplus, however, is expected to rise by 124% YOY, and reach 0.25 million tonnes in 2008, as growth in global production outpaces demand growth in 2008 (according to the ICSG).**



Source: ICSG and WBMS

A supply surplus suggests that copper prices should soften in 2008. However, copper prices are up by 29% since the end of 2007. We believe the sudden rise in prices was due to a significant drop in inventory levels, short-term disruptions in supply, a depreciating US\$ and speculative investing.

Over the long-term, we continue to expect prices to soften from current price levels based on slower growth in global GDP, and an increase in global production levels. However, we believe that global economic growth rate forecasts are high enough to support above average historic prices for copper.

The average forecasts for copper prices are US\$2.95/lb in 2008, and US\$2.50/lb in 2009, which are significantly higher than historical average prices of copper.

## **Financials**

**Operations:** At the end of Q3 2007 (as of September 30, 2007), the company had cash and working capital of \$0.88 million and (\$1.54 million), respectively. The negative working capital is largely due to the \$2 million demand debenture loan agreement between Macquarie Bank Ltd. and the company. The company had a net loss of \$2.61 million for the 9-month period ended September 30, 2007 (EPS: -\$0.05), compared to a net loss of \$1.34 million for the same period in 2006 (EPS: -\$0.03).

During the 9-month period ended September 2007, the company spent about \$3.75 million on exploration and acquisition costs related to its mineral properties. We estimate the company had a burn rate of \$0.48 million per month and \$0.67 million per month, respectively, for the 9-month period ended September 30, 2007 and the 3-month period ended September 30, 2007. The table below shows the company's cash position and liquidity ratios.

	2005	2006	Q3-2007	2007 (9 mon)
Working Capital	1,260,299	1,478,565	(1,536,765)	(1,536,765)
Current Ratio	5.1	6.5	0.4	0.4
LT Debts/ Assets	-	-	-	-
Burn Rate (incl exploration costs)	(234,900)	(449,340)	(670,906)	(479,420)
Cash from financing activities	3,952,829	5,541,028	2,067,500	5,071,825

**Recent Financings:** Subsequent to September 2007, the company issued 0.65 million common shares for total proceeds of \$0.29 million pursuant to the exercise of incentive stock options.

In February 2008, the company announced that it has completed a \$1 million non-brokered private placement through the sale of 2 million flow-through units at \$0.50 per unit to the MineralFields Group. Each unit consists of one common share of the company to be issued as a “flow-through share” and one non-flow-through common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.65 for a period of 12 months.

**Options and Warrants:** As at September 30, 2007, the company had 8.48 million stock options outstanding with exercise price ranging from \$0.15 to \$0.80, and maturity periods

between March 2008 and September 2012 (3.84 million of the stock options are currently in the money). The company also had 0.28 million outstanding warrants with exercise prices ranging from \$0.65 to \$0.80, and maturing in December 2007. We believe these warrants expired in December 2007.

**Cash Position (Bell Resources):** Based on a burn rate of \$0.48 million per month, and in consideration of the recent financings, we estimate BL currently has about \$0.26 million in cash.

**Cash Position (Grandcru Resources):** There have been no financials released by Grandcru Resources since our last report. At the end of July 2007, GR had cash and working capital of \$0.28 million and \$0.49 million, respectively. Subsequently, we estimate that Grandcru received a total of \$1.09 million from the following events.

- In December 13, 2007, Grandcru reported that it completed a non-brokered private placement (four tranches) by issuing 6.41 million units for gross proceeds of about \$0.64 million. Their original intention was to issue up to 10 million units at a price of \$0.10 to raise gross proceeds of up to \$1 million.
- In January 2008, Grandcru received about US\$0.45 million in cash as part of the consideration when it completed the sale of the company's interest in two gold/silver mineral properties to Vista Gold Corp.

Based on our discussion with the management of BL and GR, Grandcru currently has about \$0.35 million in cash.

**Cash Position (Rogue River Resources):** Macquarie Bank, Endeavour Capital and RAB Capital, are Rogue River's primary institutional investors. Since Rogue River is not a public company, we do not have precise information on the company's current cash position. Based on our discussion with management, we estimate Rogue River currently has about \$0.5 million in cash.

**Conclusion:** Based on our discussions with management, the resulting company of the proposed merger has a budget of about \$14 million, to September 2008, for its exploration and development activities (\$4 million for Grandcru, \$4 million in Southwest USA, \$4 million for La Balsa, \$2 million in Chile). Based on our estimates of the cash position of the three companies, we expect the resulting company will have to raise at least \$13.68 million to fund its capital expenditures and working capital in the next 7 months.

### ***Post-Merger Capital Structure***

The following table shows the post-merger capital structure of the resulting company based on recent financials and our own estimates. We now expect the resulting company to have 72.04 million shares, and 23.95 million stock options and warrants outstanding (previous estimate was 67.53 million shares, and 23.47 million stock options and warrants outstanding).

<b>Post Merger Capital Structure</b>	<b>Current</b>	<b>Post Merger</b>
Bell Resources	66,480,623	33,240,312
Grandcru Resources	77,006,268	9,625,784
Rogue River	32,410,333	29,169,300
<b>Resulting Shares</b>	<b>175,897,224</b>	<b>72,035,395</b>

<b>Options and Warrants</b>	<b>Current</b>	<b>Post Merger</b>
Bell Resources	8,765,972	4,382,986
Grandcru Resources	23,026,324	2,878,291
Rogue River	18,545,000	16,690,500
<b>Resulting Options and Warrants</b>	<b>50,337,296</b>	<b>23,951,777</b>

## Valuation

We continue to believe the proposed amalgamation of the three companies will be completed smoothly. Therefore, we have continued to value the company assuming the proposed amalgamation will go through.

We valued the consolidated company based on its most advanced projects, the La Balsa project and the Granduc project, using a Discounted Cash Flow model and a real options analysis. Since all the other properties are in very early stages, we valued them based on their book value, for conservatism. The table below shows our revised valuation on the company.

<b>Valuation summary of the consolidated company (revised)</b>			<b>Previous Valuation</b>	
	<b>Value</b>	<b>Value per share</b>	<b>Value</b>	<b>Value per share</b>
Granduc	\$20,770,055	\$0.26	\$46,271,654	\$0.62
La Balsa	\$29,658,891	\$0.38	\$29,854,961	\$0.40
Other Properties (book value)	\$13,535,051	\$0.17	\$12,341,342	\$0.16
Working Capital	\$1,110,000	\$0.01	\$6,171,330	\$0.08
Total Debt	(2,020,000)	(\$0.03)	(\$7,000,000)	(\$0.09)
<b>Fair Value</b>	<b>\$63,053,998</b>	<b>\$0.80</b>	<b>\$87,639,287</b>	<b>\$1.17</b>
Shares (consolidated)	78,829,769		74,812,638	

Our revised valuation on the company dropped from \$1.17 per share to \$0.80 per share primarily because we lowered our long-term copper price forecasts from US\$2.25/lb to US\$1.75/lb, offset by an increase in the La Balsa project's resource estimates.

As shown in the table above, our revised valuation dropped primarily because of a drop in our valuation on the Granduc project.

**Comments on our revised valuation on the Granduc Project:** Other than lowering our long-term copper price forecasts, we did not make any noteworthy changes in our valuation models. As a result of the lower price forecasts, our revised DCF model gave a negative NPV (previous estimate was \$0.53 per share), while our real options model dropped from \$0.70 per share to \$0.35 per share.

Since our DCF model gave a negative NPV, we decided to apply a 25% discount to our real

option valuation, and set our fair value estimate on the Granduc project as \$20.77 million, or \$0.26 per share (down from \$0.62 per share).

**Comments on our revised valuation on the La Balsa Project:** We made the following changes to our valuation models.

- Increased resource estimate to reflect the new 43-101 compliant resource.
- Lowered long-term copper price forecasts from US\$2.25/lb to \$1.75/lb.
- Lowered our operating cost estimate for copper production from the sulphides, from \$21.5/tonne to \$16.5/tonne.
- Increased our operating rate estimate for the sulphide portion from 0.75 million tonnes per year to 1.0 million tonnes per year.
- We have delayed the production start date by one quarter from Q2-2009 to Q3-2009.

As a result of all these changes, our average revised valuation dropped slightly from \$29.85 million (\$0.40 per share) to \$29.66 million (\$0.38 per share).

**Sensitivity:** Our fair value estimate is highly sensitive to copper prices. The table below presents the sensitivity of our fair value estimate to changes in copper prices.

Sensitivity Analysis	
Cu Price (US\$/lb)	Value per share
\$0.75	\$0.15
\$1.00	\$0.21
\$1.25	\$0.30
\$1.50	\$0.49
<b>\$1.75</b>	<b>\$0.80</b>
\$2.00	\$1.20
\$2.25	\$1.66
\$2.50	\$2.15
\$2.75	\$2.66
\$3.00	\$3.19

### **Conclusions & Rating**

The NI 43-101 compliant resource estimate highlights the potential of the La Balsa project, which exceeded our previous resource estimates used our previous update report. The company expects the merger to be finalized in Q2-2008, following the annual meeting at the end of March. We are pleased with the high grade oxide copper drilling results from the Sombrero Butte project and we believe continued good exploration results from the company in 2008 will be an upside catalyst for the stock.

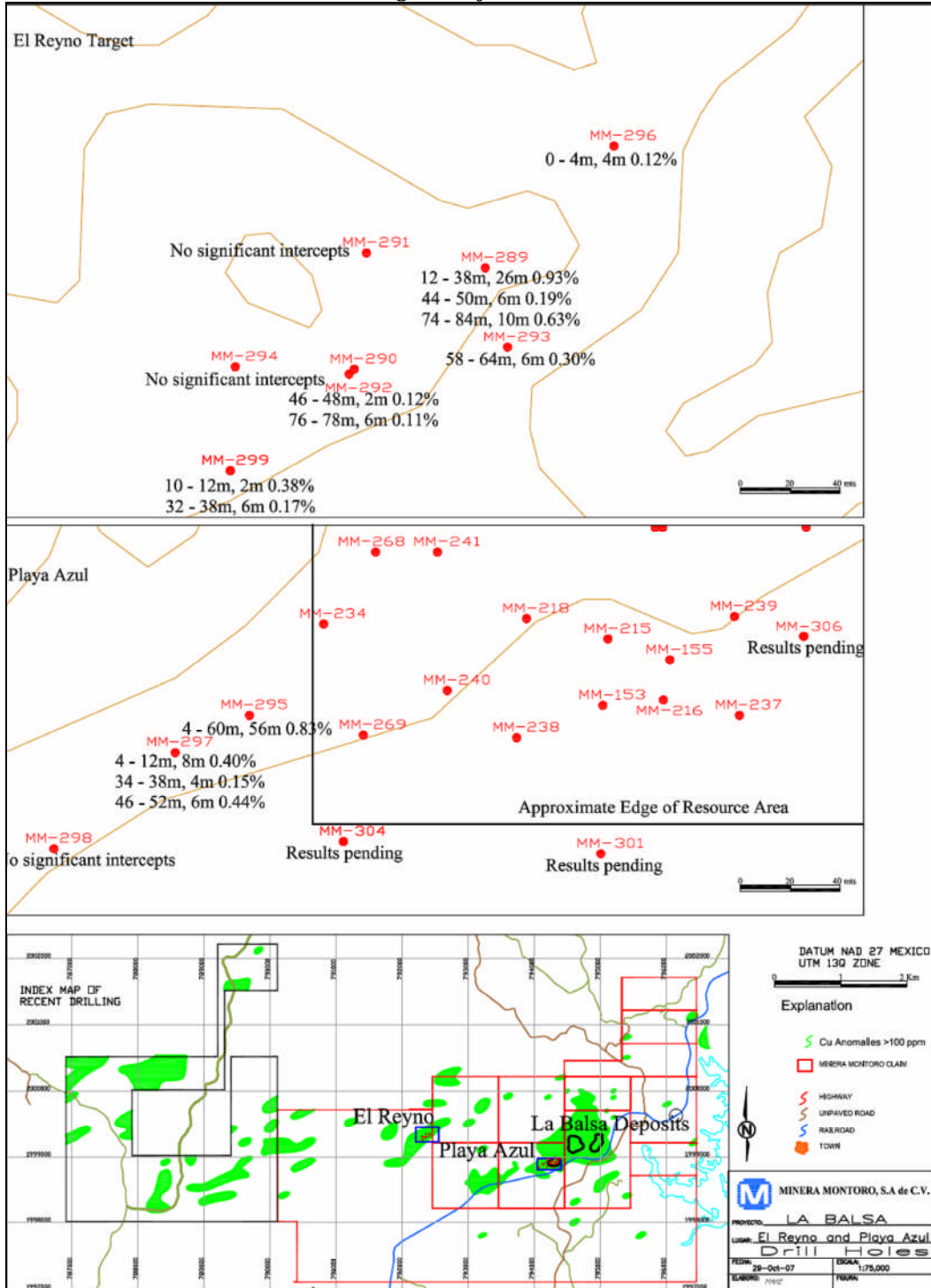
**Based on our revised valuation models and analysis of the company's projects, we reiterate our BUY rating (Risk 5: Highly Speculative) on Bell Resources, but lower our fair value estimate from \$1.17 per share to \$0.80 per share.**

**Risks**

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

- The company does not currently have any operating mines.
- The success of drilling, determination of favorable resource estimates, and project studies are important long-term success factors for the company.
- The value of the company depends on commodity prices.

## Appendix Drilling Plan for La Balsa



Source: Rogue River Resources

**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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