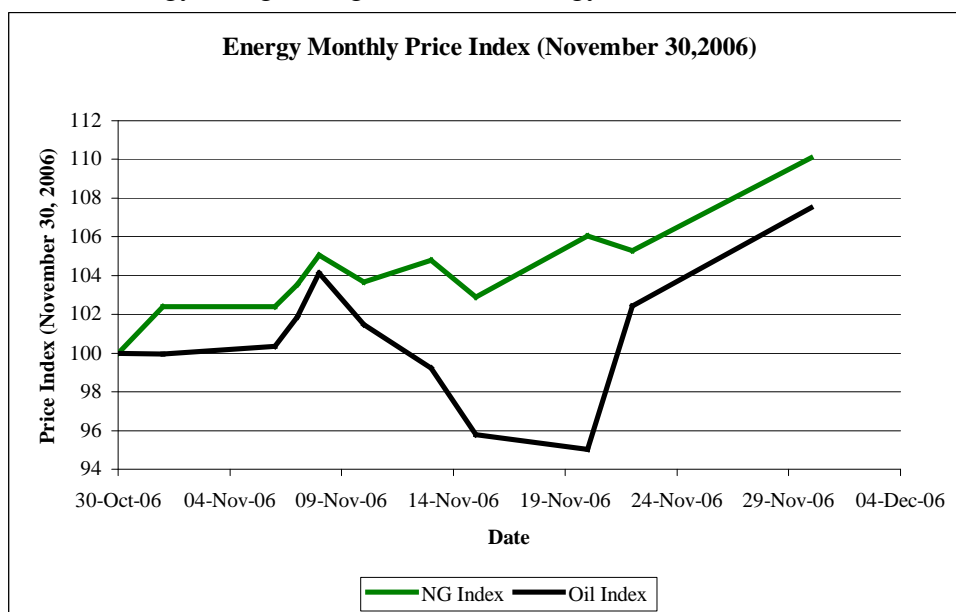


Fundamental Energy Monthly – Oversupply and a weakening U.S. economy put downward pressure on oil prices

Sector/Industry: Energy

Monthly Highlights

- OPEC's production cut in October 2006 has faced skepticism that kept oil prices low due to high inventory levels all over the world.
- Signs of a slowing economy in the United States are putting a downward pressure on oil prices that is dampening the effect of supply and demand constraints. A falling U.S. dollar reduces OPEC's oil revenues, prompting further supply cuts on their part.
- Winter weather, although late in arriving, hit much of the United States and Canada in the last week of November. This brought oil and natural gas prices up to finish the month. We believe they will stay around these levels for the rest of the year, unless unforeseen supply disruptions drives prices up.
- Supply and demand fundamentals of oil and gas indicate these commodity prices will rise in the long term.
 - We highlight wind energy as a growing alternative energy source in Canada and the United States.

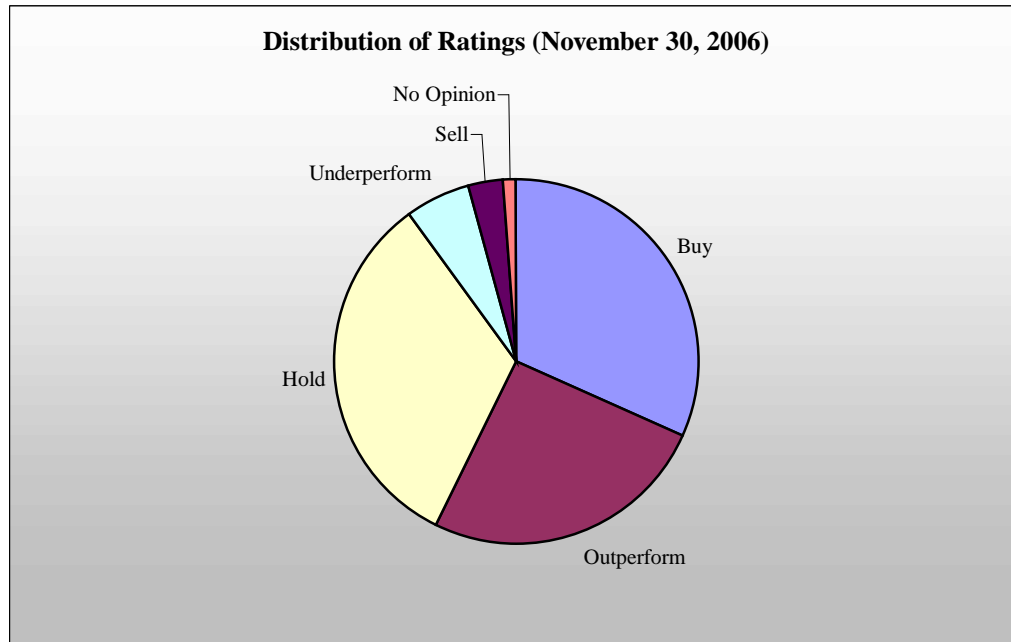


- We are less bullish on the future of metallurgical coal prices, due to data that suggests China is meeting their own demand with domestic production and has reduced metallurgical coal imports by 42% this year.

Distribution of Ratings

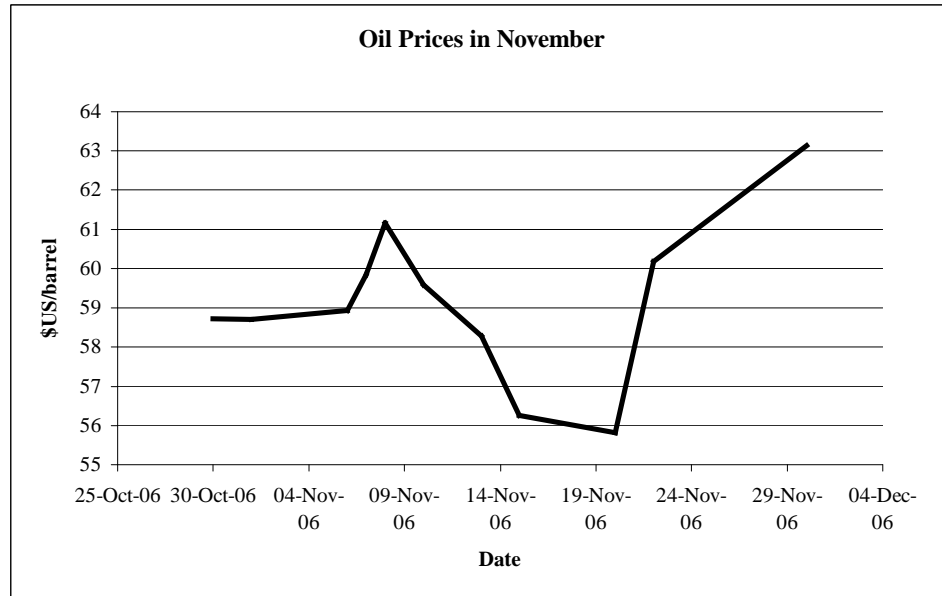
According to Reuters, the current distribution of broker recommendations for companies in the energy sector, which are engaged in the exploration, extraction and refining of coal, oil and natural gas are: 3,370 rated “Buy” or “Outperform”, up from 3,302 in October, 1,931 rated “Hold”, up from 1,858 in October, and 509 rated “Sell” or “Underperform,” up from 458 in October. All of the ratings were up from last month, but percentages were relatively unchanged. This suggests that investor attitude has not changed towards the energy sector in the last month.

The chart below shows the distribution of ratings for the energy sector.



OIL

Prices: As of November 29, 2006, the WTI crude oil price was trading at \$63.14 US/barrel. This is below the YTD average of \$66.43 US/barrel, due to very high oil prices in July that drove the average up. Last year at this time, the price was \$58.30US/barrel. This price is up from last month’s price due to a spreading cold front in the western United States and Canada. The downward trend in oil prices continued through most of November even as OPEC made some production cuts and cold weather crept into the U.S. and Canada. Oil prices hit yearly lows on November 16th due to milder weather for much of the month. Prices were boosted this week by a cold snap, but oil inventories are still at historic highs in the world’s industrialized, wealthy nations. However, larger factors of pessimism about the United States’ economy may create an environment that is driving prices down. OPEC may cut production again in December to tighten the market in the short-term.



Since OPEC's proposed cut on October 20, 2006, the market has responded with skepticism that has kept prices lower. OPEC's president, Edmund Daukouru, admitted that cuts are difficult to enforce and that OPEC may not be meeting their reduced quota goals. A cut in production would take some time to be expressed in the market. Previously, OPEC has stated that they would not rule out another cut of 500,000 barrels/day in December if circumstances warrant it. They are meeting on December 14, 2006, to address cutting supply again. However, We believe that indications that OPEC has failed to meet their most recent cut will do little to reduce skepticism about meeting further cuts. The International Energy Agency (IEA) recently announced that the wealthiest industrialized nations are reporting their highest oil inventories in 15 years, with total inventories 55 days ahead of forward demand cover. This is certainly putting a downward pressure on prices throughout the fall. A weak U.S. dollar also reduced OPEC's revenues from oil sales, which will also encourage further cuts.

NON-OPEC: Rising oil production from non-OPEC nations, especially Russia, will cause OPEC to start moderating and controlling production, OPEC's secretary said. Oversupply from non-OPEC nations could put a downward pressure on oil prices, which is detrimental to both OPEC and non-OPEC oil producing nations.

Venezuela: Venezuelan President Hugo Chavez has threatened to cut oil sales to the U.S. if it does not recognize Venezuela's December presidential election. Chavez is running for re-election, and the international community has expressed concerns over his protectionist policies. He has stated he wants Venezuela to diversify its export customers and reduce dependence on the United States. The United States takes 60% of Venezuela's 2 million b/d production. Chavez has been building alliances with other South American countries by selling oil at subsidized prices. Venezuela is also looking to increase sales to China.

Canada's Oil and Natural Gas drilling

Successful Wells	August		September	
	Wells	Meters	Wells	Meters
Gas	1094	1,123,403	808	866,795
Oil	190	263,230	105	154,917
Bitumen	116	122,164	90	104,633
Other	11	19,074	20	21,682

Source: Energy Utilities Board [EUB]

The number of oil, natural gas, and oil sands wells and length of drilling was down in September from the previous month. This is likely due to falling prices in these commodities.

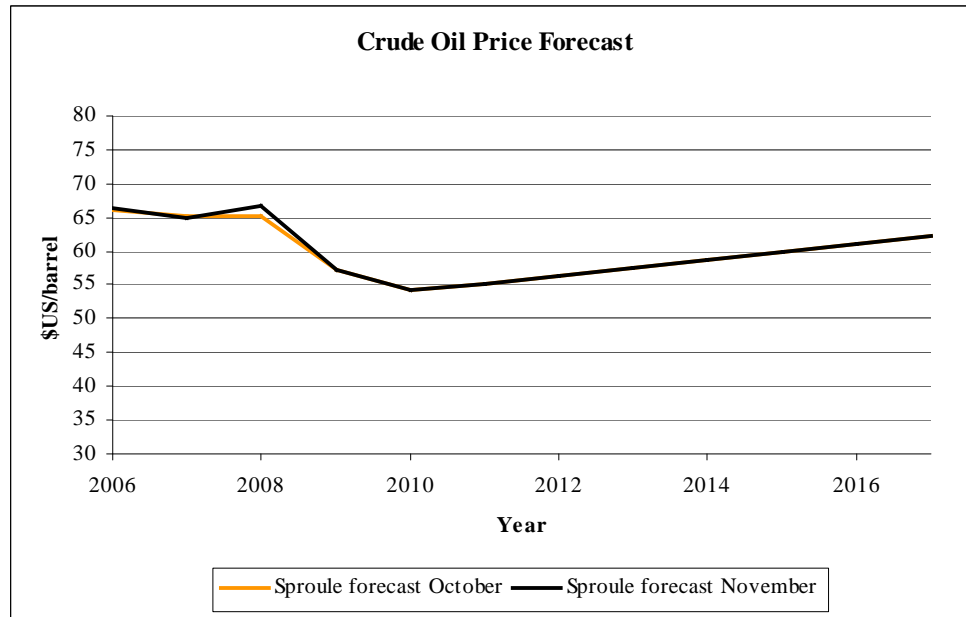
United States: Oil prices rose briefly to over \$60 on November 21, 2006, on news that the Trans Alaska Pipeline had to reduce capacity to 25% due to heavy winds that prevented crude oil loading onto tanker ships. This brief rise was short-lived, but cold weather is keeping prices up this week.

Africa: Angola and Sudan have announced plans to join OPEC, although a timeline for this proposal has not been announced. Angola, at 1.4 million barrels oil/day, is Africa's second largest oil-producing nation after Nigeria, which is an OPEC member. They hope to up production to 2 million barrels/day by the end of 2007.

Short Term Forecast: We believe that heating demands in the United States should raise oil prices in December.

Long Term Forecast: The International Energy Agency [IEA] released their annual World Energy Outlook in November. Their long-term outlook for use of fossil fuels estimates that the energy market will be dominated by fossil fuels through 2030, with oil demand growing by 1.3% yearly, in line with gross domestic product. This would mean a global oil demand of 116 million barrels/day in 2030, up from 84 million barrels/day in 2005. Oil's share as a fuel source is expected to slip from 35% to 33% over the next 25 years. The largest demand for oil in 2030 is expected to be for transportation, projected to increase to 52% of oil demand in 2030. Biofuels are expected to make a significant contribution to transportation's energy demands. However, the IEA estimates that their share will reach only 4% in 2004, because biofuels require land to grow crops and rising food demand will compete for the land.

We believe that due to the rising growth of oil demand in the transportation sector, oil demand will become less sensitive to oil prices, as transportation demand is the least affected by prices. Income will remain the primary driver of oil demand all over the world, with many regions seeing great income growth.

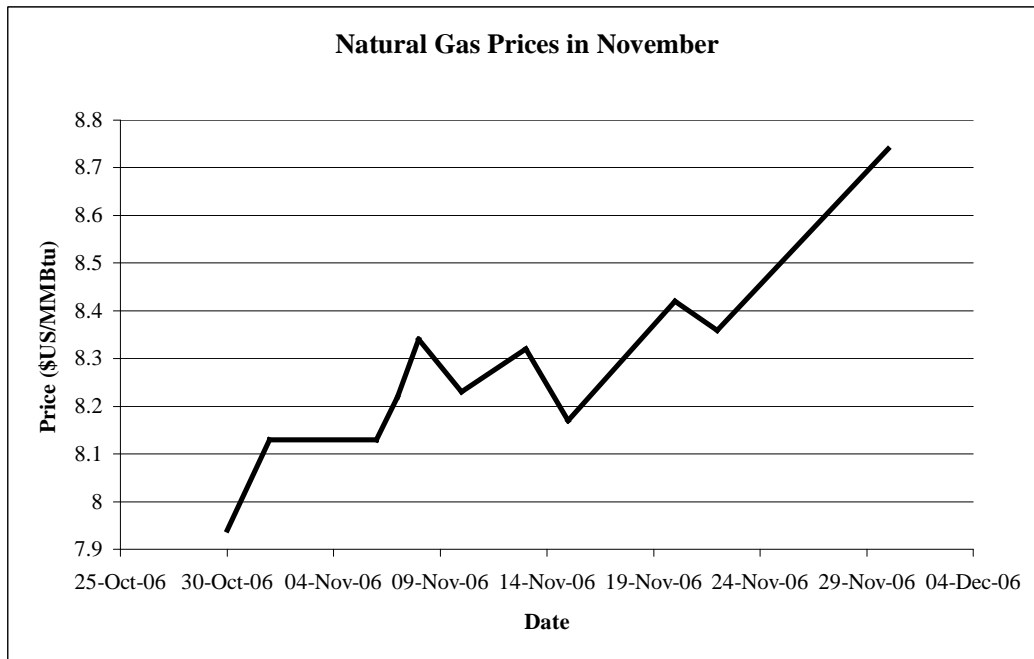


Source: Sproule

In last month's energy monthly, we used forecasted prices from both Sproule and GLJ. GLJ's forecasts are updated quarterly, and this month we will compare Sproule's November forecast to their October forecast. As shown in the graph above, Sproule adjusted their forecast through 2009 slightly upwards from last month. After 2009, the forecasts remain the same. We believe higher prices through 2009 are due to supply constraints imposed by OPEC to bring prices higher. Supply and demand fundamentals suggest a modest easing of prices in the next few years as new capacity comes on steam and the growth of demand slows with the U.S. economy.

NATURAL GAS

Prices: As of November 31, 2006 the Henry Hub price of natural gas was \$8.32/MMBtu. This is above the YTD average of \$6.731. Last November, natural gas was \$13.83/MMBtu, fueled by a huge cut in supply caused by Hurricanes Katrina and Rita in the all-important Gulf region of the U.S. This year's price is higher than the price 2 years ago in November, \$7.63/ MMBtu. Prices have risen this month, with the beginning of winter heating demand, as cold weather hit the western United States and Canada. Natural gas prices have been very volatile this month and there is a lot of uncertainty about prices until the end of this year.



Supply: High storage levels of natural gas continue in the United States, although recent cold weather will draw them down. The United States' storage levels of natural gas were at 3,417 billion cubic feet on November 24, 2006, higher than 3,232 bcf a year ago at the same time. Supply is being drawn down from highs in October. Natural gas imports to the United States from Canada dropped from 305,260 million cubic feet in August 2006, to 278,884 mcf in September 2006. This drop is likely due to high storage levels and diminished drilling due to poor natural gas prices.

Natural gas exploration in Canada could drop 10% in 2007, with British Columbia being hit the hardest at a forecasted decline of 28%. This would be the first drilling slowdown since 2002. This forecast is expected due to the decline in commodity markets for gas and weather conditions that slowed demand this year. We believe the cut should bring prices up again at the end of next year.

Canada has several proposed liquefied natural gas [LNG] facilities and has entered into an agreement with Russia to accept natural gas. Proposed LNG plants in Nova Scotia and New Brunswick are set to open by 2009. Canada is currently in debate with the United States over allowing LNG tankers into Canadian waters through Head Harbour Passage on route to Mill Creek, Maine, and a proposed LNG facility there.

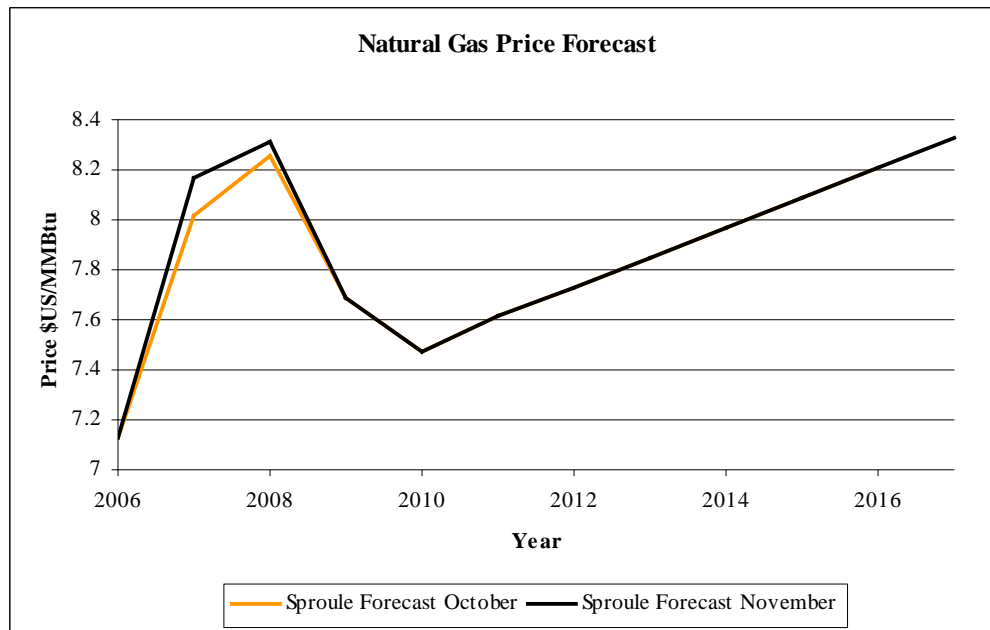
In our last issue, we discussed LNG and proposed LNG facilities in the United States. LNG has been a contentious topic in the United States and has faced resistance from grassroots lobbyists in the form of local community members and environmentalists. A major campaign issue in California this election season was LNG facilities. California has five proposed LNG facilities that were the cause of protests this month. The state derives half of its electricity from natural gas and has no LNG facilities currently. LNG has become a NIMBY concept—Not in My Backyard.

LNG is also facing issues of shortages. Low natural gas supply is delaying the development of new LNG

facilities globally, while some facilities are not operating. Much of the existing production of natural gas is already committed in long-term contracts, which leave extra to feed LNG facilities. The United States is currently experiencing a steady decline of LNG shipments since November, due mainly to difficulties in production in Trinidad, the U.S.'s largest LNG exporting partner. LNG imports in August 2006 were 52,122 million cubic feet, and declined to 40,004 million cubic feet in September 2006. The spot market for natural gas is already constrained, with little room for LNG development.

Short Term Forecast: A current cold snap suggests the heating season for the 2006-2007 winter has begun. Continued cold weather should drive up natural gas prices, but a warmer winter than forecasted could be detrimental to prices with current storages levels high. The EIA estimates that Henry Hub prices will stay below \$9 through the winter heating season, peaking in January at approximately \$8.70 per mcf. The Henry Hub price is expected to average \$7.06 per mcf in 2006 and \$7.79 per mcf in 2007.

Long Term Forecast: Higher natural gas prices in the long-term could slow the projected demand growth of natural gas. However, gas demand will still grow faster than coal until 2030, according to the IEA, when coal demand will overtake natural gas demand.



Source: Sproule

In last month's energy monthly, we used forecasted prices from both Sproule and GLJ. GLJ's forecasts are updated quarterly, and this month we will compare Sproule's November forecast to their October forecast. As you see in the graph above, Sproule adjusted their forecast through 2009 slightly upwards from last month, in line with their oil forecast. After 2009, the forecasts remain the same. We expect natural gas prices to follow oil's trend because of competition between the fuels, and use of oil-price indexing in long-term natural gas contracts. Natural gas prices are expected to rise more sharply through 2008, due to supply constraints in Canada and a lack of LNG facilities. Many LNG facilities will not be completed until 2008 and 2009.

COAL

Prices: Coal prices, like all energy prices, have risen dramatically in the past few years. Currently, coal prices are under downward pressure due to oversupply, similar to oil and natural gas. This year has seen coal prices in the United States drop. We may see coal prices continue to fall, due to high coal inventories from a warmer 2005-2006 winter and a forecasted milder winter (albeit colder than last year). The stock prices of coal producers are tied to coal prices, and they have witnessed a drop in stock prices as well. These companies have responded with production cuts, which has helped to slow the price decline but production cuts are not immediately felt in the coal market.

Thermal Coal: The thermal coal trade is expected to increase 3% in 2007, to 619 million tonnes globally. However, any upward pressure on prices may be offset by increased production in some of the world's major producers, including Australia, South Africa, Indonesia, and Columbia.

Metallurgical Coal: China's production of metallurgical coal is increasing faster than previously thought and thus we are softer on the future of metallurgical coal prices. Metallurgical coal is a limited market, with Australia, Canada, and the United States as the largest world suppliers. We are less bullish on metallurgical coal prices due to a 42%, or 2.5 million tonnes, decline in metallurgical coal imports for the Chinese this year. This suggests that China is becoming self-sufficient in metallurgical coal production more quickly than expected. We believe this will impact Australia and Canada the most, as 88% of the reduction in imports this year comes from the exports of these two countries.

Supply: Coal is becoming Canada's fastest growing energy export. Currently, Canada exports half of its coal production to Asia, Europe, and Latin America. Canada exports coking coal, used for steel making, and imports thermal coal from the United States. Canada has an estimated 7.3 billion short tons of coal reserves. Coal production, which has declined in the past few years, is concentrated in Western Canada.

Demand: Natural gas is a cleaner energy source that can meet electricity generation demands, but high natural gas prices often correlate with increased use of coal for electricity generation. Currently, the United States meets around 50% of their electricity demand with coal burning power plants, due to their large coal reserves and fast growing electricity demand that cannot be met with natural gas. Nuclear power is a controversial source of electricity, but increased interest in its emission free power has some people considering it for use. This could affect demand for coal in the long-term, although nuclear power is very controversial. The United States has vast coal reserves, and have not committed to reducing emissions through the Kyoto Protocol.

China accounts for 90% of increased demand for coal. They generate most of their electricity with coal burning power plants, and are not tied to the Kyoto Protocol due to exceptions made for developing nations. China is expected to become the biggest emitter of carbon dioxide in 2009.

Forecast: Demand for coal will be the fastest growing fossil fuel demand in the next 25 years, according to the IEA. However, coal will not overtake natural gas demand before 2030 in percentage terms. The long term forecast for coal predicts consumption will double in the next 25 years, with the non-OECD countries accounting for 81% of this consumption. Expanding coal production in China and India, where reserves exist, could place a downward pressure on coal prices by easing demand.

Coal production in the U.S. is expected to grow by 1.7% in 2006, and 0.6% in 2007. Coal imports, which account for 3% of U.S. consumption, are expected to increase by about 12% each year during this time.

WIND ENERGY



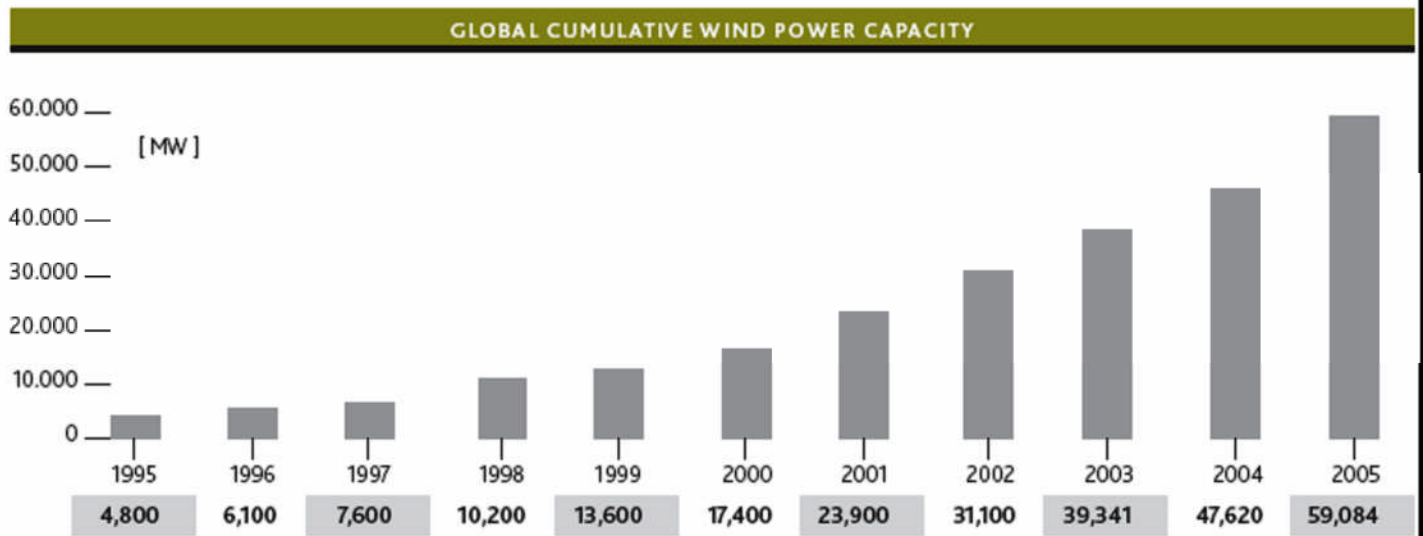
A large wind farm in California.

Source: Western Wind Energy

Renewable energy sources are a fast-growing market in the United States and Canada. Heightened environmental concerns, rising fossil fuel prices and energy security have prompted interest in renewable energy sources, including solar and wind power. Canada, as a member of the 1997 Kyoto Protocol to reduce greenhouse gas emissions, is seeking alternative, renewable energy sources and is offering incentives for this type of power. The Canadian government initiated the Wind Power Production Incentive (WPPI) in 2001. This project aims to motivate electricity producers to build wind farms by subsidizing a portion of the cost of establishing a wind farm for the first 10 years. The government estimates that through wind power, they will reduce greenhouse gases by 3 megatonnes/year by 2010. The amount of electricity generated from wind power has been growing steadily for years.

Windmills convert wind energy to mechanical energy by turning turbines. This mechanical energy turns a generator to produce electricity, and cables carry this electricity to transmission lines. Modern turbines are a world away from ancient windmills used for grinding grain. They are hundreds of meters tall and can catch faster and more consistent wind speeds high above the ground surface. The blades can rotate to face the wind and optimize wind speed in every direction. They start turning at around 13 km/hour wind speed and shut off at wind speeds of above 90 km/hour to prevent damage. Offshore wind farms are increasingly popular, because these locations have greater wind speeds and reduced environmental problems.

Wind power is a growing technology used worldwide. The greatest growth thus far has been in OECD countries, especially the United States and Europe. The country of Denmark generates 20% of their electricity from wind power. The wind power market is growing faster than any other renewable energy source. In 1995, the world's capacity for wind power was 4,800 megawatts. This has increased twelve-fold to 59,000 megawatts in 2005. The United States has over 3,000 wind power projects proposed in at least 40 states.



Wind Power capacity is the fastest growing renewable energy source.

Source: Global Wind Energy Council

Canada is entering the wind power market as well. In 2006, Canada installed 657 megawatts of wind energy capacity, increasing Canada's total capacity to 1,341 megawatts. This is enough capacity to meet the electricity demands of over 400,000 homes.

Energy Company Developments:

Western Wind Energy Corp. (TSX.V: WND) is a growing wind energy company that recently went into production on two facilities in California. Their Windstar I project in California is expected to supply 400-million kilowatt hours/year for a contracted term of 20 years. They hold over 60,000 acres of land in California, Arizona, and New Brunswick. Their Arizona Wind Park is expected to be completed in March 2007.

December 4, 2006 – Baden Technologies Inc. (TSX-V: BDZ) released their Q3 2006 results on November 8, 2006. Highlights include an increase in revenue of 811% quarter over quarter for the same period last year (\$2,924,035 – 2006; \$320,715 – 2005), due to expansion in BDZ's domestic operations and export sales. Overall revenue for the last three quarters has grown by 532% (\$7,079,736 – 2006; \$1,120,933 – 2005). Demand for the company's filtration products remains very strong compared to historical levels. The company has a P/E ratio of 2.75. Our sector average for Canadian small cap oilfield services companies is 15.2, which would suggest that BDZ's recent results might not be accounted for in their current share price and that the company may be undervalued. (Source: Reuters)

December 4, 2006 – Diversified Industries Ltd (TSX-V: DVS) announced in their latest financial results that revenue of their scavenger technology, DVS 6000, increased over 150% for the year ended August 31, 2005. The company filed a provisional patent application for a new hydrogen sulphide ("H₂S") scavenger, which will directly compete with the widely used ammonia and triazine based H₂S scavengers in both price and performance. The company expects this new scavenger to provide it with a new competitive advantage, as the company will now have two H₂S scavengers to offer clients. The company is currently looking at several

opportunities with other companies in order to build a family of oilfield chemicals and solutions by adding to their current specialized scavengers, through joint venture, merger or acquisition. (Source: Reuters)

December 4, 2006 - Result Energy Inc. (TSX- RTE.V) has just released its Q3 2006 results. Highlights include significant increases in production volumes - 92% increase to average 860 boed compared to 448 boed for Q3-2005, and a 62% increase in average boed for the 9-months YTD – 677 boed compared to 419 boed for 2005. RTE's exit production was 1,050 boed for September 30, 2006. The company's volumes from two gas wells were able to commence flowing as a third party compression facility in the Pembina area came on stream in July. Overall 2006 drilling success rate to the end of Q3 was 70.8% (77.1% net). The company is expecting to expand its credit line from a previous limit of \$9.6 million to a revised initial limit of \$11 million, with further expansion through Q1-07 up to \$15 M as additional production comes on stream. This expanded bank facility, plus increasing production and related operating cash flows indicate the company will be able fund its 2007 exploration and production plans. (Source: Reuters)

November 28, 2006 – Xtreme Coil Drilling Corp. (TSX: XDC) announced on November 10, 2006 that it had released its financial results for their third quarter ended September 30, 2006. Highlights included an increase from zero production to \$1,197,865 in revenues for the third quarter year over year and the completion of a second Coil Over Top Drive™ drilling rig (patent-pending), which began drilling in October for a major US E&P. They are still expecting 14 rigs to arrive and the revenues for those rigs have not yet been accounted for. XDC's drilling rigs will allow E&P companies to take advantage of cost savings as a result of the faster drilling times associated with coiled tubing. XDC generated initial revenue as drilling operations commenced, continued a vigorous build-out program for the company's Coil Over Top Drive™ drilling rigs and graduated to trading on the TSX. The company is well funded with \$29,911,020 in cash. (Source: Reuters)

December 4, 2006 - Wavefront Energy and Environmental Services Inc (TSX-V: WEE) announced on October 26, 2006 that a new environmental tool has been successfully applied with Environmental Resources Management Inc. ("ERM") a licensee of the company's patented fluid flow technology, now marketed as the "Primawave™" process in the environmental sector. The new tool was employed with a branch of the US military. According to WEE's President and CEO, Brett Davidson, "There exists a large potential market for Wavefront's Primawave Process and more specifically, the Hornet, in the environmental sector where the US Federal Government estimates it will spend US \$ 239 billion over the next 75 years, and private industry is spending US \$4.5 billion per annum. Management believes the success of the Hornet tool can leverage the Primawave process to companies who depend on the rapid and efficient placement of treatment remedies at multiple injection sites. To this end, the Company's strategy is to license Primawave and Hornet tools to environmental consulting and service companies. At present the Company is reviewing additional licensing options with other environmental consulting and service companies". (Source: Reuters, <http://www.asce.org/reportcard/pdf/wisconsin14.pdf>)

December 4, 2006 – Questor Technology Inc (TSX-V: QST) released its Q3-2006 on November 27, 2006. Results included an increase in revenue of 132% to \$824,532 from revenue of \$355,642 for the same quarter in 2005. Q3 net earnings were \$106, 879, an increase of \$94,005 from the \$12,874 reported net earnings for the same quarter in 2005. The company has revenues of \$2,559,561 for the nine months ended September 30, 2006, a 71% increase over revenues of \$1,497,092 for the same period in 2005. Net earnings for the first nine months of the year of \$424,414 is a 215% increase from the \$157,056 reported net earnings for the same period in 2005.

QST has demonstrated consistent profitable per share growth. The company has a P/E ratio of 9.29. Our sector average being 15.2, the company appears to be undervalued.

FRC Energy Universe

How will Ottawa's decision to tax income trusts affect junior oil and gas companies? These junior oil and gas companies may have a prolonged lifespan because they can compete for assets now that income trusts do not have a capital advantage. We may see more junior energy companies going over 20,000 barrels/day.

The FRC Energy Universe is comprised of 123 companies with the following characteristics:

1. Exchange: Toronto Stock Exchange (TSE) or TSX Venture Exchange
2. Industries: Oil, Natural Gas, Oilfield Services, Coal (Categorization by Reuters)
3. Market Capitalization: Small cap companies with a market capitalization of less than \$20 million and greater than \$2 million

Top 5 Gainers: November 2 – November 30, 2006					
	Company	symbol	Stock price	% change, 4 weeks	% change, 52 weeks
1	Canoro Resource Ltd.	CNS.V	1.75	56.25	90.22
2	Pacific Roder Energy	PRD.V	0.64	48.84	-48.80
3	Ausam Energy Corporation	AUZ.V	0.43	48.28	-14.00
4	Candax Energy Inc.	CAX.TO	0.72	28.57	20.00
5	Vena Resources Inc.	VEM.V	0.75	25.00	47.06

Top Gainer of the Month: Canoro (previously covered by FRC) is a Canadian-based international oil and gas company operating in the Assam/Arakan basin of northeast India. Their current focus is oil production. Canoro is currently producing up to 500 bbls/d of very light oil from Amguri, in which they have a 60% interest.

Top 5 Decliners: November 2– November 30, 2006					
	Company	symbol	Stock price	% change, 4 weeks	% change, 52 weeks
1	Caribou Resources Corp	CBU.V	0.89	-47.95	-60.44
2	Flagship Energy Inc.	FG-A.V FG-B.V	1.05	-47.50	-80.45
3	Innicor Subsurface Technologies	IST.TO	2.01	-46.26	3.08
4	Grande Cache Coal Corp.	GCE.TO	0.80	-29.20	-69.47
5	Leader Energy Services Ltd.	LEE.V	1.70	-29.17	-52.11

Top Decliner of the Month: Caribou Resources Corp. is an exploration and development company focused on exploring for natural gas in Northern Alberta, and oil and natural gas in Central Alberta. Their stock has been on a steady decline since poor second quarter results in 2006. They are currently considering restructuring the company and are trying to rebuild their financial position. Their Q3 operations saw a production decline due to technical difficulties.

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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