

**Power Nickel Inc.**  
(TSXV: PNP / OTC: CMETF)

**BUY**

**Current Price: C\$0.20**  
**Fair Value: C\$0.44**  
**Risk: 5**

**A High-Grade Junior Trading at a Steep Discount – Initiating Coverage**

**Sector / Industry: Junior Resource**

[Click here for more research on the company and to share your views](#)

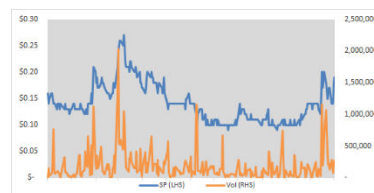
**Highlights**

- Power Nickel (“Power”) is completing a NI 43-101 compliant resource for its **NISK high-grade nickel sulphide project in Quebec**. NISK has a historic Nickel Equivalent (NiEq) resource totaling 65 Mlbs indicated (grading 1.5%), and 27 Mlbs inferred (grading 1.2%). We consider grades of >1% NiEq high. We note that juniors with high-grade nickel resources trade at least 10x higher than those with low-grade resources (<0.4%).
- **PNPN is trading at \$0.27/lb vs the comparables average of \$0.73/lb, implying a 63% discount.**
- NISK holds class 1 nickel; **the type used in lithium-ion batteries of electric vehicles/EV**. Nickel prices are up 50% YoY to US\$13.5/lb, amid rising demand for EVs, supply chain disruptions, and a 51% decline in inventory levels. We expect near-term prices to be under pressure amid rising rates, and a slowing global economy, leading to a supply surplus in the next 12 months. That said, we are **expecting long-term prices to be US\$8-US\$10/lb (vs the 10-year average of US\$7/lb)**, as most large undeveloped nickel projects in the world cannot generate attractive economics if prices fall below US\$8/lb.
- PNP is pursuing a 15,000 m **drill program to confirm and expand the historic resource (expected by Q2-2023)**. Initial results from two holes (outside the historic resource area) were highly promising.
- In addition to NISK, Power holds a 100% interest in four early-stage exploration projects (three in Chile and one in B.C.), and a 3% royalty interest in a copper-molybdenum development project held by Teck Resources (TSX: TECK). Management is planning to spin out these assets into a new publicly listed company next year. PNP’s investors **will receive free shares** of this new company.
- **Upcoming catalysts** include drilling, the spin-off transaction, and positive sentiment towards juniors focused on EV metals.

**Sid Rajeev, B.Tech, MBA, CFA**  
Head of Research

**Nina Rose Coderis, B.Sc (Geology)**  
Equity Analyst

**Price Performance (1-year)**



	YTD	12M
PNPN	54%	43%
TSXV	-40%	-35%

**Company Data**

52 Week Range	C\$0.09–C\$0.30
Shares O/S	120M
Market Cap.	C\$24M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	7.6x

**Risks**

- The value of the company is primarily dependent on nickel prices
- Exploration and development risks
- **Access to capital and potential for share dilution**
- No assurance that the company will be able to advance all of its projects simultaneously

**Key Financial Data (FYE - Dec 31)**

C\$	2021	2022 (9M)
Cash	\$1,176,687	\$355,531
Working Capital	-\$644,362	-\$1,624,446
Total Assets	\$1,403,754	\$547,608
Net Income (Loss) - adj.	-\$3,922,229	-\$2,222,022
EPS	-\$0.05	-\$0.03

**Completed a \$4.2M equity financing subsequent to Q3-2022.**

**\*See last page for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.**

*One nickel project, four copper-gold projects, and a royalty interest in a development-stage copper project owned by Teck*

### Portfolio Summary

Project	Interest	Commodity	Location
NISK	Option to acquire a 80% interest	Class 1 Nickel	Quebec, Canada
Golden Ivan	100%	Copper/Gold	B.C., Canada
Zulema	100%	Copper/Gold	Atacama, Chile
Palo Negro & Hornitos	100%	Copper/Gold	Atacama, Chile
Tierra de Oro	100%	Copper/Gold	Atacama, Chile
Copaquire (owned by Teck)	3% NSR	Copper/Molybdenum	Chile

Source: Company

### NISK Nickel Sulphide Project Ownership and Location

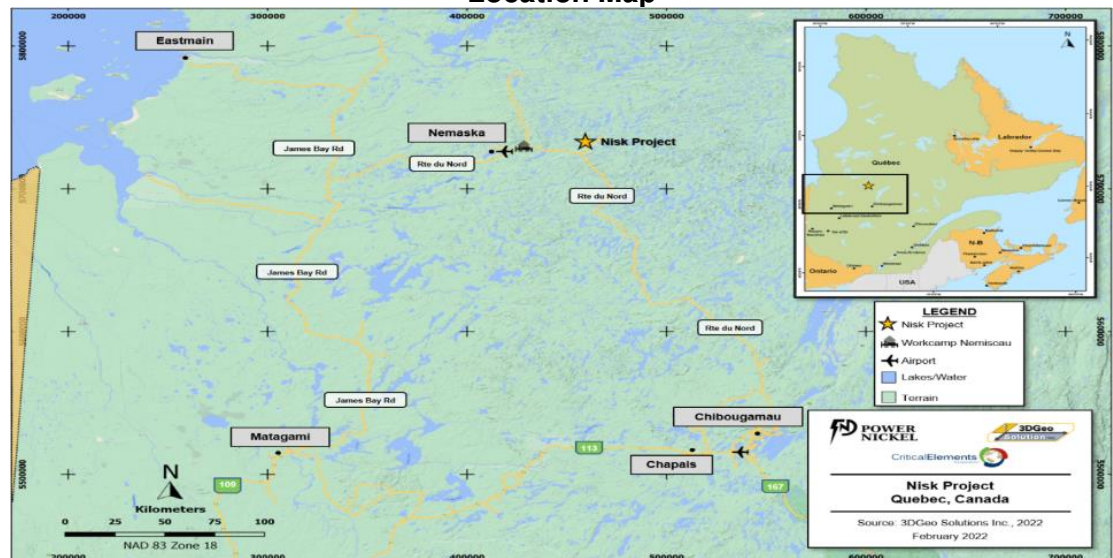
In 2021, Power entered into an option agreement with Critical Elements Lithium (TSXV: CRE/MCAP of \$492M). Power can acquire 80% through cash payments totaling \$0.5M (paid), 12M shares (issued), and by spending \$5M in exploration (\$2.5M spent to date).

The property, covering 45.9 km<sup>2</sup>, and comprised of two blocks (NISK-1 and NISK-2), is located in an established mining region near James Bay, Quebec.

*Active mining region, with several advanced stage lithium projects*

*Excellent infrastructure in place, including access to water and low-cost hydro power*

### Location Map



Source: Company

### Historic Resource Estimate

Between 2007 and 2021, 66 diamond drill holes (15,266 m) were drilled on the main NISK deposit, which is an elongated nickel sulphide body. In July 2022, the company completed a maiden resource estimate. Although tonnage is relatively small, we believe the resource is promising due to high-grades. In addition, 35% of

the indicated resource is open-pittable, which implies potential for lower CAPEX/OPEX.

The project has a historic resource (completed in 2009) totaling 65 Mlbs indicated (grading 1.5%), and 27 Mlbs inferred (grading 1.2%)

The company had published a NI 43-101 compliant resource earlier this year (18% higher contained NiEq, with 9% lower grades relative to the historic resource); however, PNP had to retract this estimate because of insufficient metallurgical studies

In addition to high-grade nickel, the deposit has low-medium grade copper, and low-grade gold, silver, PGM, and cobalt

The resource area covers 900 m x 500 m, and is 400 m deep

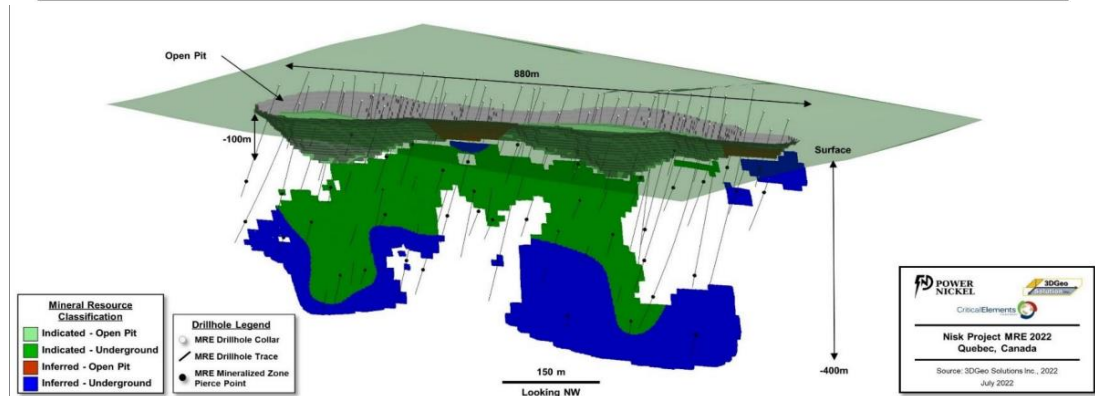
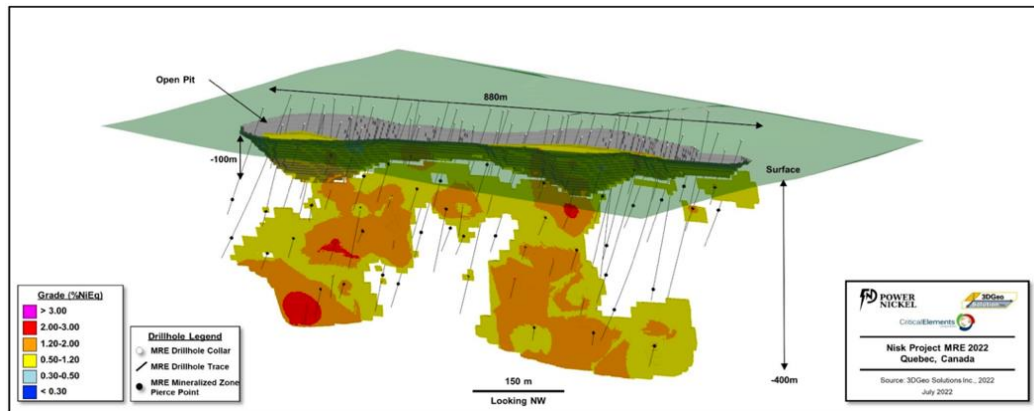
The deposit is open laterally and at depth

	2022 (Non 43-101 Compliant)						
	Tonnage	NiEq	NiEq (lbs)	Ni	Ni (lbs)	Cu	Cu (lbs)
<b>Indicated</b>	2,587,600	1.20%	68,456,177	0.72%	41,073,706	0.42%	23,959,662
<b>Inferred</b>	1,404,800	1.29%	39,951,994	0.75%	23,227,904	0.53%	16,414,385
<b>100% Ind. + 50% Inf.</b>	<b>3,290,000</b>	<b>1.22%</b>	<b>88,432,174</b>	<b>0.73%</b>	<b>52,687,658</b>	<b>0.44%</b>	<b>32,166,855</b>
<b>100% Ind. + 100% Inf.</b>	<b>3,992,400</b>	<b>1.23%</b>	<b>108,408,172</b>	<b>0.73%</b>	<b>64,301,610</b>	<b>0.46%</b>	<b>40,374,047</b>

	Historic (2009)						
	M&I	NiEq	NiEq (lbs)	Ni	Ni (lbs)	Cu	Cu (lbs)
<b>M&amp;I</b>	2,038,000	1.45%	64,969,314	1.06%	47,420,330	0.55%	24,643,051
<b>Inf.</b>	1,053,000	1.16%	26,846,225	0.81%	18,803,888	0.32%	7,428,696
<b>100% M&amp;I + 50% Inf.</b>	<b>2,564,500</b>	<b>1.39%</b>	<b>78,392,426</b>	<b>1.01%</b>	<b>56,822,274</b>	<b>0.50%</b>	<b>28,357,399</b>
<b>100% M&amp;I + 100% Inf.</b>	<b>3,091,000</b>	<b>1.35%</b>	<b>91,815,539</b>	<b>0.97%</b>	<b>66,224,217</b>	<b>0.47%</b>	<b>32,071,747</b>

Source: FRC / Company

**Isometric View of the Resource Estimate**

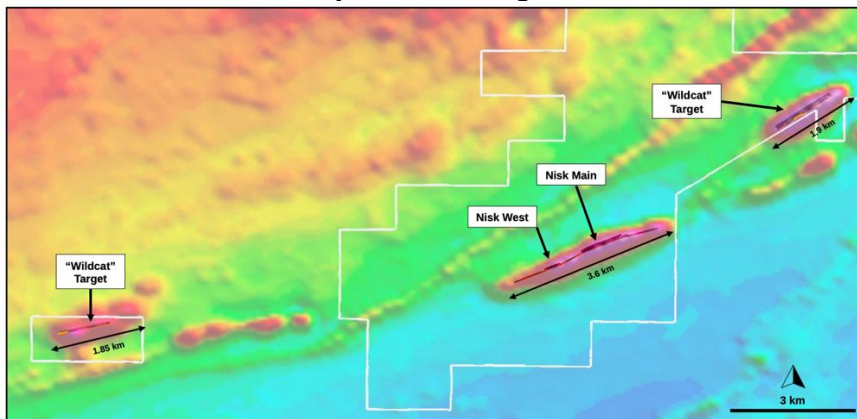


Source: Company

### Resource Expansion Potential

Management is aiming to expand the historic resource by testing three additional targets, including NISK West (1.5 km long), Wildcat West (1.85 km long), and Wildcat East (1.9 km long). As **nickel sulphide deposits often form in clusters**, we believe the probability for new discoveries is high.

### Exploration Targets



Source: Company

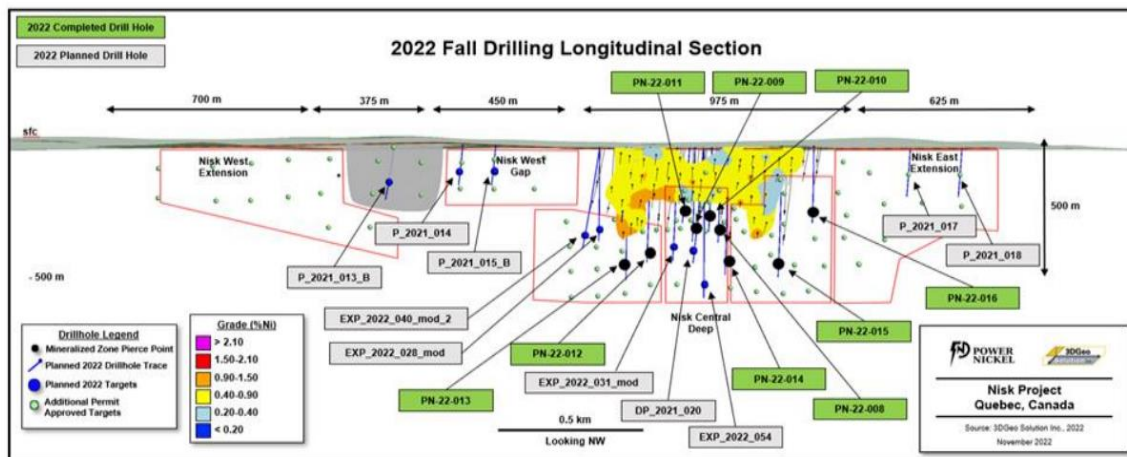
Multiple under explored targets

Currently pursuing a 15,000 m drill program to confirm and expand the historic resource

11 holes completed to date in an area outside the historic resource; results of two announced to date

Initial results have been highly promising

Aiming to complete a maiden resource estimate in Q2-2023, after completing the ongoing drill program and additional met studies



### Promising initial results:

- **PN-22- 009: 1.17% Ni and 0.80% Cu over 26 m (2% NiEq), including 1.50% Ni and 0.93% Cu over 11 m (2.5% NiEq), plus Co and PGM; This hole is just 150 m from current resources, indicating resource expansion potential**
- **PN-22- 013: 1.11% Ni and 0.54% Cu over 5 m**

Source: Company/FRC

## Other Projects

Four early-stage pre-resource projects; management is planning to spin out all of these assets

No immediate plans for its projects in Chile

Planning a drill program in B.C.

Golden Ivan, B.C.	Zulema, Chile	Palo Negro & Hornitos, Chile	Tierra de Oro, Chile	3% Copaquire Royalty, Chile
Epithermal and Porphyry	Iron oxide copper gold ore deposits (IOCG)	IOCG	IOCG	Copper-Moly (held by Teck)
Two high-grade gold zones identified	1 sq. km area of exposed hydrothermal skarn/22m of 0.45% Cu and 0.11 g/t Au	Palo Negro hosts a historic mine	n/a	Next to Teck's Quebrada Blanca mine/Teck has an option to buy 1% NSR for US\$3M
Planning a drill program in 2023	No immediate plans			

Among these projects, we believe the company's 3% royalty interest in Copaquire is noteworthy. This project is 10 km from Teck's operating Quebrada Blanca mine, which is expected to operate for another 28 years. Although Teck is unlikely to start developing/advancing Copaquire in the near-future, **we believe PNP should be able to monetize** its royalty interest by selling it to Teck, or a royalty company.

### Copaquire Resource Estimate

Sulfato South (copper) - Inferred							
Cu Eq. Cut-off	Tonnage	Copper % Grade	Cu lbs	Moly % Grade	Mo lbs	% Cu Eq Grade	Cu. Eq. lbs
0.7	341,322	0.73	5,518,552	0.02	170,513	0.86	6,456,371
0.6	1,993,126	0.66	28,973,069	0.02	1,024,158	0.79	34,605,937
0.5	7,564,965	0.57	95,459,749	0.02	3,505,961	0.69	114,742,535
0.4	19,698,009	0.49	213,997,050	0.02	8,410,369	0.60	260,254,078
0.3	43,508,402	0.41	393,051,016	0.02	16,677,113	0.51	484,775,136
<b>0.2</b>	<b>102,069,110</b>	<b>0.32</b>	<b>709,917,818</b>	<b>0.02</b>	<b>34,971,782</b>	<b>0.40</b>	<b>902,262,617</b>
0.1	158,999,637	0.26	910,754,805	0.02	53,237,191	0.34	1,203,559,356

Inferred resources totaling 902 Mlbs CuEq, plus molybdenum resources

Cerro Moly (molybdenum) - Indicated + Inferred								
Cut-Off MoEq	Category	Tonnage (kt)	Mo (%)	Mo Mlbs	Cu (%)	Cu Mlbs	Re (ppm)	MoEq (%)
0.028	Indicated	229,474	0.039	197	0.111	561	0.104	0.069
	Inferred	193,888	0.026	111	0.146	624	0.063	0.066
0.032	Indicated	181,374	0.042	168	0.118	472	0.116	0.074
	Inferred	141,595	0.027	84	0.162	506	0.065	0.071
0.036	Indicated	141,848	0.045	141	0.126	394	0.125	0.079
	Inferred	105,675	0.028	65	0.179	417	0.068	0.077

Source: FRC/Company

Based on a conservative throughput rate of 36,000 tpd, an average copper grade of 0.32%, and a recovery rate of 85%, we estimate Copaquire can potentially produce 80 Mlbs/year, implying US\$7M/year in royalties for PNP (assuming US\$3/lb copper). **Our AT-NPV12% estimate of these royalties is US\$4M**, assuming Copaquire operates for 10 years, after being advanced to production 20 years from now.

## Management and Directors

### Share Ownership

Name	Position	% of Total
Terry Lynch	CEO and Director	5.98%
Peter Kent	Non-Executive Chairman	0.58%
Greg McKenzie	Independent Director	0.10%
Les Mallard	Independent Director	1.44%
Ximena Perez	Managing Director, Chile	-
<b>Total</b>		<b>8.10%</b>

Institutions / Key Investors	% of Total
Critical Elements	10.04%
<b>Total</b>	<b>10.04%</b>

<b>Management / Directors and Institutions</b>	<b>18.13%</b>
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*Source: Management Information Circular*

Management and board own 8%

Brief biographies of the management team and board members, as provided by the company, follow:

### **Terry Lynch – CEO and Director**

Mr. Lynch graduated in 1981 from St. Francis Xavier University with a joint honors degree in Economics and BBA. Over the last forty years, he has established himself as a serial entrepreneur establishing successful Industrial, Technology, BioTech, Energy, FinTech and Mining Companies both Private and Public. These entities have raised over \$200M in equity. He is also the founder of Save Canadian Mining where he, Eric Sprott and other mining leaders they advocate against predatory short selling.

### **Ximena Perez – Managing Director, Chile**

Ms. Perez has 13 years of experience in Chile as an exploration and production geologist. The first 5 years as a production geologist in underground mining in Cu. Then, she developed a career as an Exploration Geologist with extensive experience in drilling program supervision, data management and geological modeling. She participated in the exploration for the expansion of Skarn Las Cenizas (Cu-Ag), Talcuna (stratabound and veins Cu-Au) deposits; Punitaqui (stratabound and veins Cu-Ag-Au) and Dayton (epithermal of Au), in these last two as chief exploration geologist.

### **Peter Kent – Chairman**

Mr. Kent was formerly with the TecSyn Group of Companies where he was Vice President, General Counsel and Corporate Secretary. He brings over 25 years of business experience regarding complex business and legal affairs. In addition to his time at Tecsyn, Mr. Kent also was a corporate commercial lawyer at Bassel Sullivan, a Toronto-based boutique law firm.

**Greg McKenzie – Director**

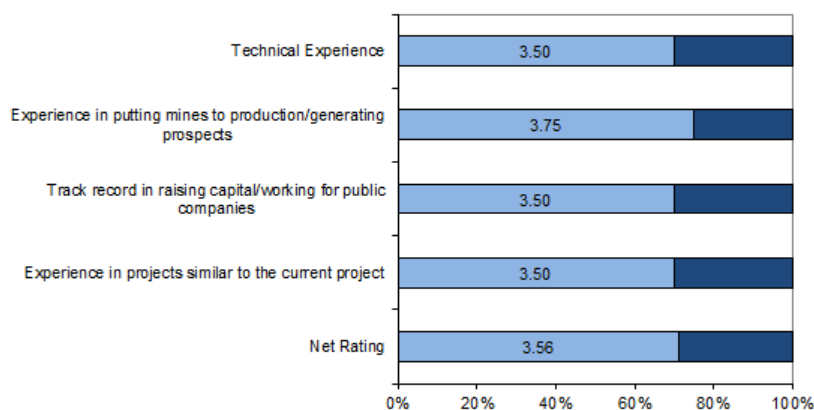
Mr. McKenzie is a senior investment banker with 20 years of experience in financing, M&A, financial advisory, valuation, and strategic advice primarily to mid-cap companies. His transactions are valued in excess of \$18B. Mr. McKenzie has held positions with Morgan Stanley, CIBC World Markets, Haywood Securities and Salman Partners. While at these firms, he advised managements and boards of companies in various sectors including: metals & mining, industrials, consumer products, technology and healthcare.

**Les Mallard – Director**

Mr. Mallard is a graduate from The University of Prince Edward Island with a BA in Economics. He has spent 30+ years in the Canadian Produce Industry employed in various capacities with Chiquita Canada and Chiquita Brands North America. Retiring from Chiquita in 2017, he has started Mallard Produce Solutions, a produce consulting company focused on providing North American and Latin American clients business solutions to expand their market potential. Les is on the Board of Directors for the Canadian Produce Marketing Association. He is also on the Board of Directors for Hydroponic Life.

*Our net rating on the company's management team is 3.6 out of 5.0*

**Management Rating**



**Strength of Board**

	Poor	Average	Good
Three out of four directors are independent			X
Directors' share ownership			X
The Audit committee is composed of three board members, all are independent			X
Management Compensation is decided by the Board			X

*Three out of four directors are independent*

Source: FRC

## Financials

Strengthened balance sheet through a \$4.19M financing in November 2022

In-the-money options can bring in \$0.35M

C\$	2021	2022 (9M)
Cash	\$1,176,687	\$355,531
Working Capital	-\$644,362	-\$1,624,446
Current Ratio	0.68	0.25
LT Debt / Assets	-	-
Monthly Burn Rate (incl. G&A)	-\$82,650	-\$139,227
Exploration Expenses	-\$1,400,093	-\$691,626
Cash from Financing Activities	\$3,606,105	\$1,067,169

	Options	Strike Price	Value
Total Outstanding	9,150,000	\$0.24	\$2,207,750
In-the-Money	2,500,000	\$0.14	\$350,000

	Warrants	Strike Price	Value
Total Outstanding	33,242,300	\$0.24	\$7,915,285
In-the-Money	-	-	-

Source: FRC / Company

## FRC Valuation and Rating

The following table compares PNP to other juniors with high-grade nickel projects.

### High-Grade Ni Projects

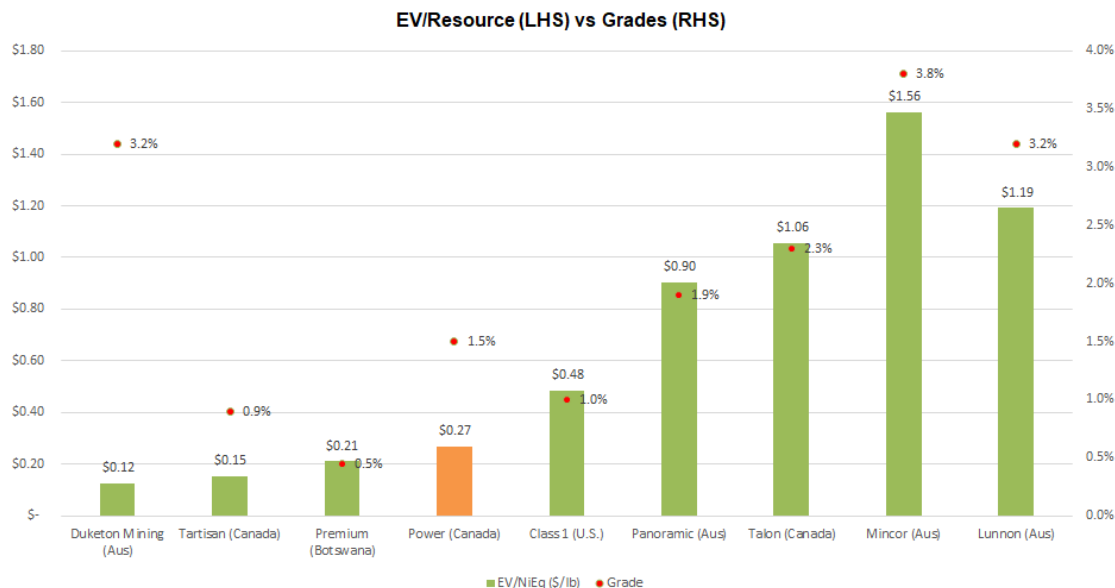
Project	Tamarack	Kenbridge	NISK	Alexo-Dundonald	Kambalda	Duketon	Savannah	Cassini	Selebi
Location	Minnesota	Ontario	Quebec	Ontario	Australia	Australia	Australia	Australia	Botswana
Company	Talon Metals (60% Interest)	Tartisan Nickel	Power Nickel (80%)	Class 1 Nickel	Lunnon Metals	Duketon Mining	Panoramic Resources	Mincor Resources	Premium Nickel
Enterprise Value (CSM)	\$352	\$24	\$17	\$24	\$140	\$24	\$427	\$659	\$146
Stage	PEA	PEA	Resource	Resource	Resource	Resource	Producer	Producer	Resource
NiEq Resource	Ind: 444 Mlbs (2.3%) + Inf: 223 Mlbs (1.2%)	M&I: 137 Mlbs (0.9%) + Inf: 39 Mlbs (1.7%)	M&I: 65 Mlbs (1.5%) + Inf: 27 Mlbs (1.2%)	Ind: 27 Mlbs (1.0%) + Inf: 45 Mlbs (1.0%)	Ind: 93 Mlbs (3.2%) + Inf: 49 Mlbs (2.5%)	Ind: 121 Mlbs (3.2%) + Inf: 144 Mlbs (1.6%)	M&I: 401 Mlbs (1.9%) + Inf: 144 Mlbs (2.0%)	M&I: 391 Mlbs (3.8%) + Inf: 61 Mlbs (3.9%)	Ind: 1,381 Mlbs (0.45%)
Ni Equiv. (100% M&I + 50% Inf.)	333	157	63	50	118	193	473	421.5	690.5
EV/Resource	\$1.06	\$0.15	\$0.27	\$0.48	\$1.19	\$0.12	\$0.90	\$1.56	\$0.21
Average	\$0.73								

Source: FRC / S&P Capital IQ / Various Companies

PNPN is trading at \$0.27/lb vs the comparables average of \$0.73/lb, reflecting a 63% discount



Applying the comparables average EV/lb of \$0.73, we arrived at a fair value estimate of \$0.38 per share for NISK



Source: FRC / S&P Capital IQ / Various Companies

Based on a sum-of-the-parts valuation model, we arrived at a fair value estimate of \$0.44 per share for PNP

Valuation Summary	\$M	\$ per share
NISK - Comparables Valuation	\$45.77	\$0.38
Copaquire - AT-NPV12%	\$5.35	\$0.04
Working Capital	\$2.03	\$0.02
<b>Fair Value</b>	<b>\$53.15</b>	<b>\$0.44</b>

Source: FRC

For conservatism, we are not assigning any value to PNP's four early-stage projects. **We are initiating coverage with a BUY rating, and a fair value estimate of \$0.44 per share.** Upcoming catalysts include drilling, and positive sentiment towards juniors focused on EV metals. We believe PNP offers **attractive speculative exposure to the EV revolution**, considering its significantly discounted EV/lb, high-grade resources, resource expansion potential, and upcoming spin-off transaction.

### Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The value of the company is **dependent on commodity prices**
- Exploration and development risks
- Access to capital and potential for share dilution
- **No NI 43-101 compliant resource or economic studies**
- No assurance that the company can advance all of its projects simultaneously

As with most juniors, we are rating PNP's shares a risk of 5 (Highly Speculative)

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

**Disclaimers and Disclosure**

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