

# Fundamental Research Corp.

Investment Analysis for Intelligent Investors

October 13, 2017

## Mexican Gold Corp. (TSXV: MEX) - Initiating Coverage – Gold-Copper-Silver in Mexico

Sector/Industry: Junior Resource

[www.mexicangold.ca](http://www.mexicangold.ca)

### Market Data (as of October 12, 2017)

Current Price	C\$0.24
Fair Value	C\$0.85
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.13 - C\$0.44
Shares O/S	34,341,660
Market Cap	C\$8.24 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	2.7x
YoY Return	17.5%
YoY TSXV	2.1%

\*see back of report for rating and risk definitions



### Investment Highlights

- Mexican Gold Corp. (“MEX”, “company”) is advancing the Las Minas gold-copper-silver project located in Veracruz state, Mexico.
- In August 2017, the company announced an initial resource estimate on the project for two of the eight identified zones. The total measured and indicated resource estimate is 0.30 Moz gold equiv. oz at 1.90 gpt gold equiv. grade. The total inferred resource estimate is 0.72 Moz gold equiv. oz at 2.17 gpt gold equiv. grade. Approximately 87% of the resource is open pittable.
- **The average grade of the open pit resource is 2 gpt gold equiv, making it one of the highest grade open pit minable deposits in Mexico.**
- In September 2017, the company commenced a 3,000 m diamond drill program to expand the resource at the El Dorado/Juan Bran zone (one of the zones with a resource estimate), and test the underexplored zones.
- We consider the next 3 to 6 months highly exciting as the company receives more results, and tests the potential of the new zones.
- **MEX is currently trading at an Enterprise Value (“EV”) to resource ratio of \$11.5 per oz versus the comparables average of \$57.4 per oz.**
- **We are initiating coverage with a BUY rating and a fair value estimate of \$0.85 per share.**

### Risks

- The value of the company is highly dependent on commodity prices (primarily gold).
- The company does not currently have any operating mines.
- Exploration and development risks.
- Access to capital and share dilution.

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

(C\$)	2016	2017 (9M)
Cash	\$44,377	\$1,098,557
Working Capital	-\$654,070	\$665,038
Mineral Assets	\$23,695,116	\$26,074,109
Total Assets	\$24,790,260	\$34,610,736
Net Income (Loss)	-\$953,168	-\$1,125,736
EPS	-\$0.11	-\$0.07

**Overview**

Mexican Gold, based out of Thunder Bay, Canada, was founded in 2006, as Source Exploration Corp. Since 2010, the company has been exclusively focused on advancing the Las Minas project. The management team is headed by Brian Robertson, who has been the CEO and President since 2009. In April 2017, the company’s name was changed to Mexican Gold Corp.

**Ownership**

The Las Minas project is comprised of six mining concessions totaling 1,616 ha. The company entered into option agreements to acquire a 100% interest in the six concessions, namely Pepe, Pepe Tres, San Jose, La Luz 1 and Pueblo Nuevo in 2010. The San Valentine concession was acquired by staking in 2012. The company acquired a 100% interest in the La Luz and Pueblo Neuveau concessions, and completed a share purchase agreement for a 100% interest in the Pepe, Pepe Tres, and San Jose concessions in 2017.

**Location**

The project is located 160 km northeast of the City of Veracruz, and 250 km east of Mexico City. It has good access as it is located just 16 km (gravel road) of a highway. The project’s location is shown in the map below.



Source: Company

The project has abundant access to water and there is a hydro-electric power facility in the region.

Although topography is steep in the region, all of the company’s current targets are on level ground – which, we believe, is a key advantage.

*Geology and Mineralization*

The project’s geology (Au-Cu-Ag skarn) is considered to be similar to the well-known **Guerrero Gold Belt in southwestern Mexico**. This belt hosts world class Au and Au-Ag-Cu skarn projects, including Leagold Mining’s (TSX: LMC) Los Filos mine, and Torex Gold’s (TSX: TXG) Morelos Gold property, as shown in the map below.

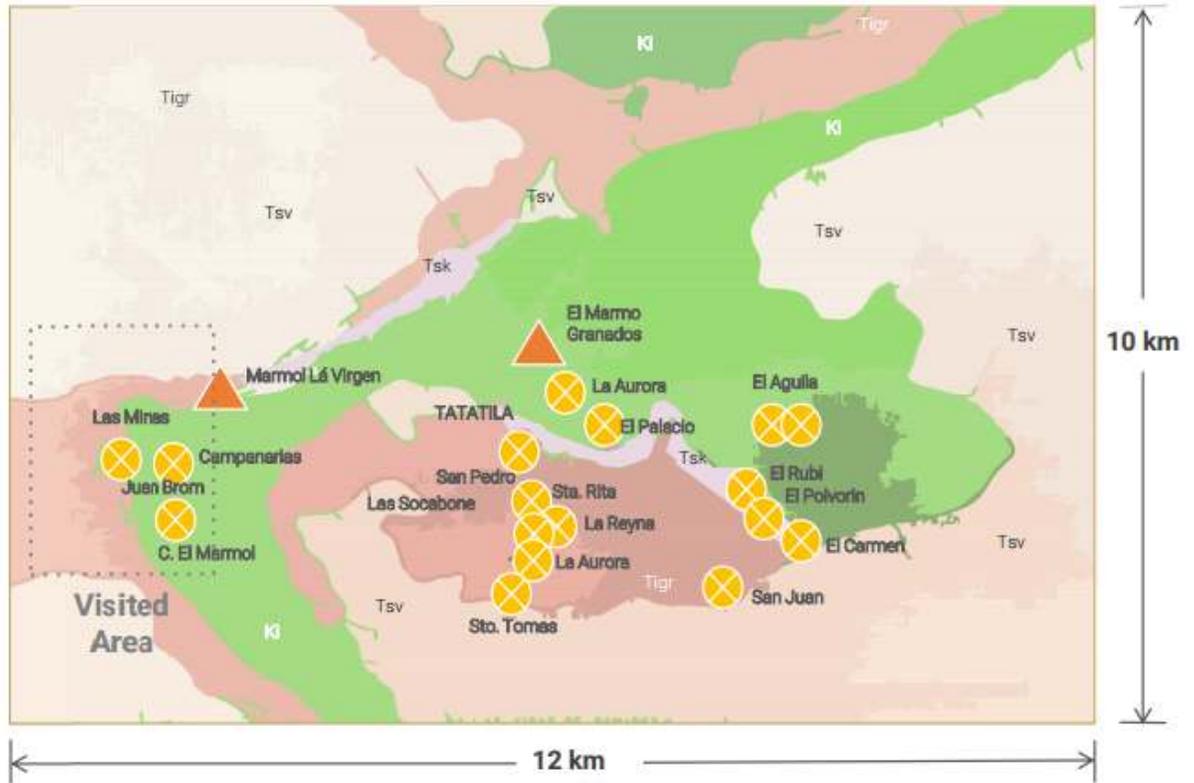


*Source: Company*

Located 230 km south of Mexico City, **the Los Filos mine** produces approximately 200 Koz per year of gold at a cost of under US\$900 per oz. Measured and Indicated resources on this project are 11.5 Moz at 0.85 gpt gold, and inferred resources total 4 Moz at 0.76 gpt.

**The Morelos Gold property**, located 180 km southwest of Mexico City, has two deposits. El Limon – Guajes holds measured and indicated resources of 4.1 Moz at 2.65 gpt gold, and inferred resources total 0.36 Moz at 2.62 gpt. Commercial production commenced in April 2016. The second deposit, the Media Luna deposit, holds inferred resources of 7.4 Moz at 4.48 gpt.

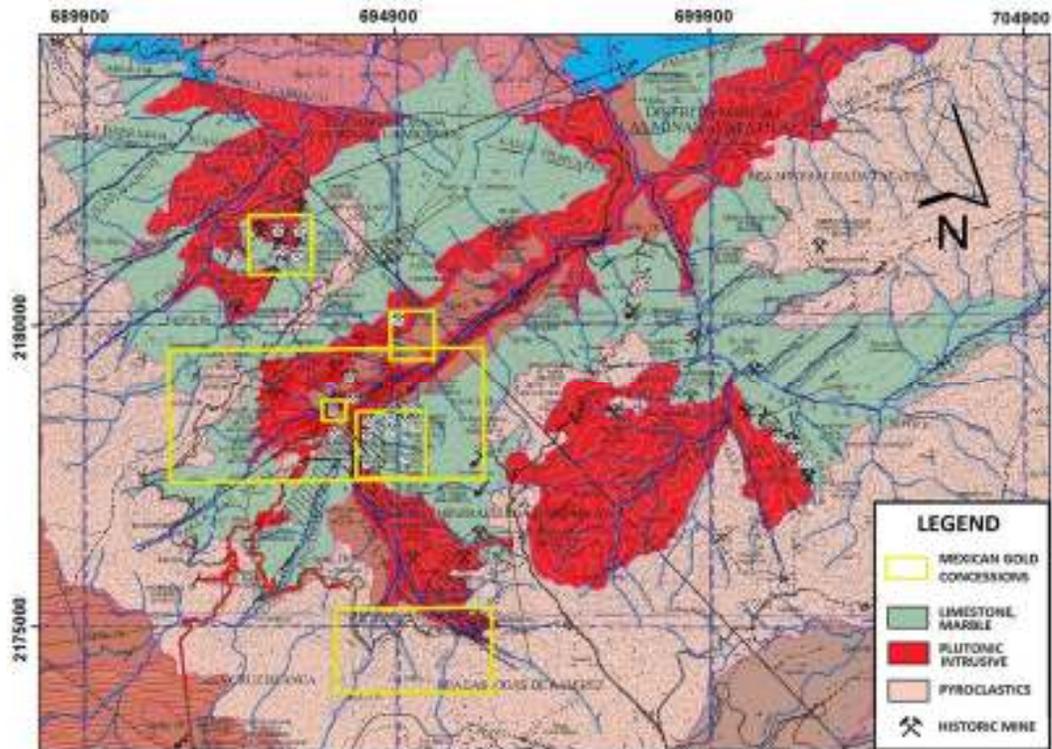
MEX's Las Minas is located in a district scale geological setting estimated to be 10 km by 12 km, as shown below:



Source: Company

**MEX's property includes over 30 small scale high grade mines which operated between 1870 and 1910.** High-grade gold (20 – 40 gpt), and copper (15% to 30%), were produced during this period. The gold-copper-magnetite skarn deposits identified on the property outcrop on surface and are extensions of historical mines in the region.

The Las Minas area is underlain by a cretaceous carbonate platform which has been intruded by mid-tertiary sills and dikes. The combination of cretaceous carbonate rocks and plutonic intrusive are the areas of interest (shown below).



Source: Company

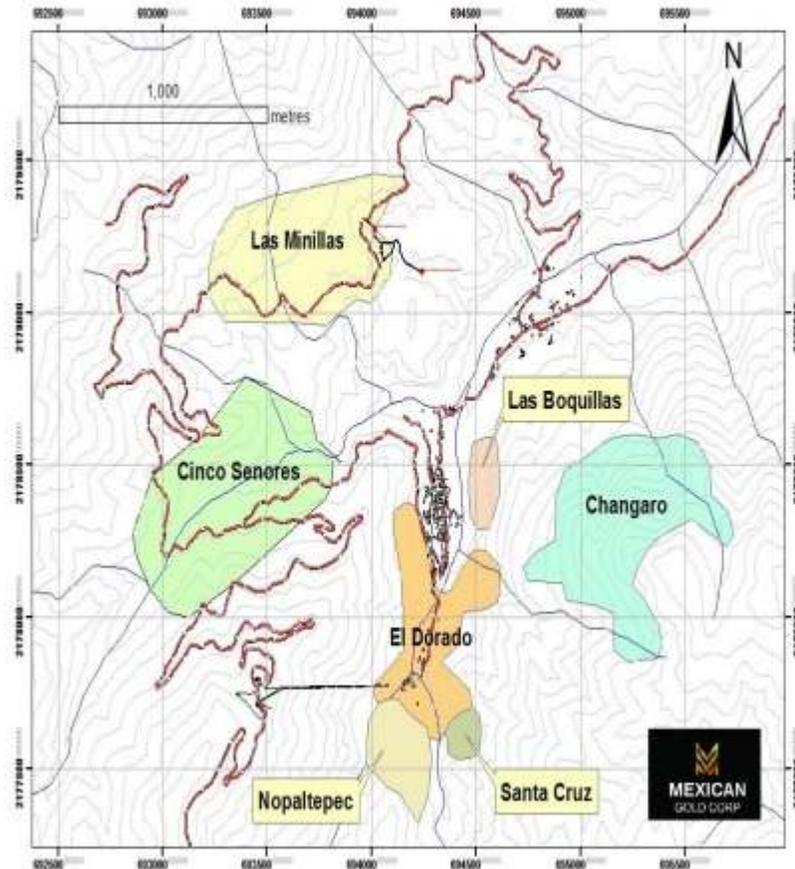
**Historical Work**

Although the region has a long track record of mining, there has been limited exploratory work. Upon acquiring the concessions, MEX conducted sampling, followed by a drill program in 2011. **The drill program in 2011 identified Au-Ag-Cu mineralization in two skarn zones over a distance of approximately 2 km.** Encouraged by this success, the company continued to aggressively drill the property package. In total, the company has drilled (diamond drilling) a total of 142 holes / 39,500 m since 2011:

- 2011 – 50 holes / 8,940 m
- 2012 – 10 holes / 1,081 m
- 2014 – 42 holes / 4,685 m
- 2015 – 15 holes / 1,906 m
- 2017 – Phase 1 drilling 25 holes for 3,142 metres. Phase 2 drilling currently underway

**Eight mineralized skarn zones have been identified to date, with several high grade veins outcropping on surface.**

**LAS MINAS PROJECT MINERALIZED ZONES**



Source: Company

*Initial Resource*

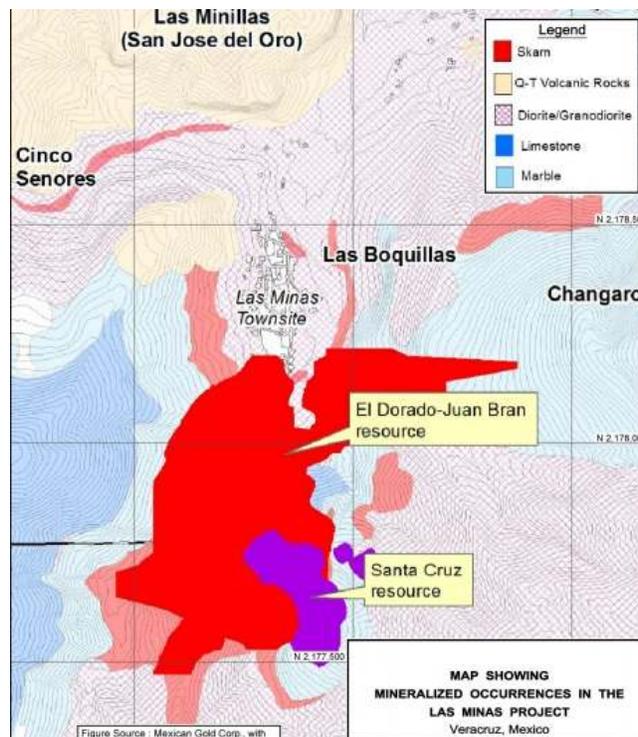
In August 2017, the company announced the first resource estimate on the project. The estimate, which was prepared by John T Boyd Company, Mining and Geological Consultants of Denver Colorado, was based on **data generated from 140 diamond drill holes totaling 19,636 m of drilling.**

**The resource included estimates for two zones - the El Dorado/Juan Bran zone and the Santa Cruz zones.** See image above for locations. The total measured and indicated resource estimate is 0.30 Moz gold equiv. oz at 1.90 gpt gold equiv. grade. The total inferred resource estimate is 0.72 Moz gold equiv. oz at 2.17 gpt gold equiv. grade. Approximately 87% of the resource is open pitable, and the remaining underground. **The average grade of the open pit resource is 2 gpt gold equiv, while the average for underground is 3 gpt gold equiv.** We believe that an average grade of 2 gpt will make it one of the highest grade open pit minable deposits in Mexico.

Material	Category	Au Eq g/t	Au g/t	Cu %	Ag g/t	Tonnes	Au Eq oz
Pit Constrained	Measured	2.32	1.24	0.65	4.66	62,000	5,000
Pit Constrained	Indicated	1.86	0.9	0.58	4.33	46,85,000	2,81,000
Pit Constrained	<b>Total M&amp;I</b>	<b>1.87</b>	<b>0.91</b>	<b>0.58</b>	<b>4.34</b>	<b>47,47,000</b>	<b>2,86,000</b>
Pit Constrained	Inferred	2.06	1.02	0.64	3.69	91,21,000	6,05,000
Underground	Measured	0	0	0	0	0	0
Underground	Indicated	2.46	1.24	0.74	5.05	2,23,000	18,000
Underground	<b>Total M&amp;I</b>	<b>2.46</b>	<b>1.24</b>	<b>0.74</b>	<b>5.05</b>	<b>2,23,000</b>	<b>18,000</b>
Underground	Inferred	2.99	1.57	0.86	6.25	11,83,000	1,14,000
PC + UG	Measured	2.32	1.24	0.65	4.66	62,000	5,000
PC + UG	Indicated	1.89	0.92	0.58	4.36	49,08,000	2,99,000
PC + UG	<b>Total M&amp;I</b>	<b>1.9</b>	<b>0.92</b>	<b>0.59</b>	<b>4.37</b>	<b>49,70,000</b>	<b>3,04,000</b>
PC + UG	Inferred	2.17	1.08	0.66	3.99	1,03,04,000	7,19,000

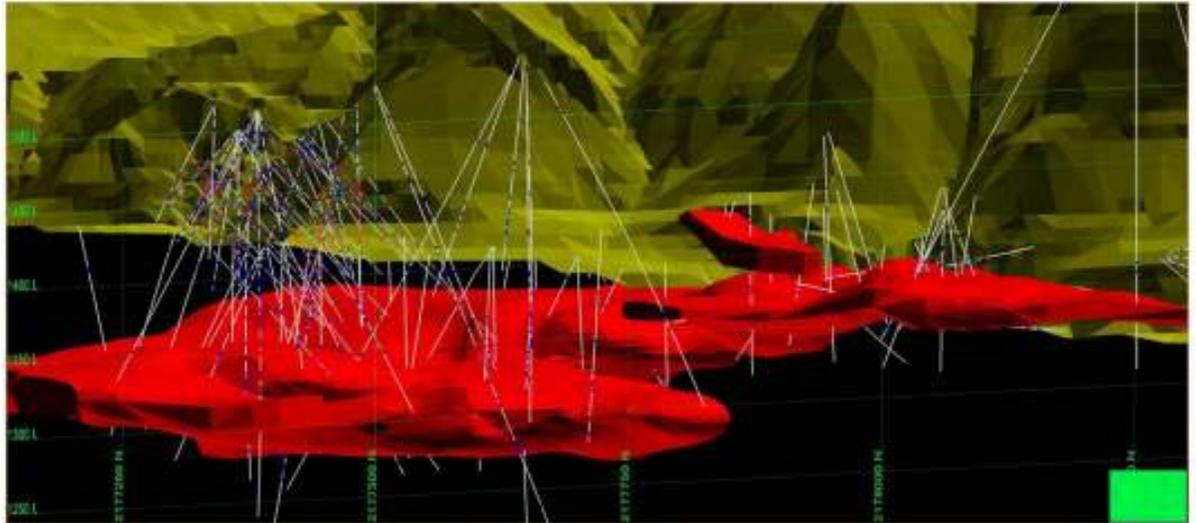
Source: Company

The map below shows the location of the identified resource:



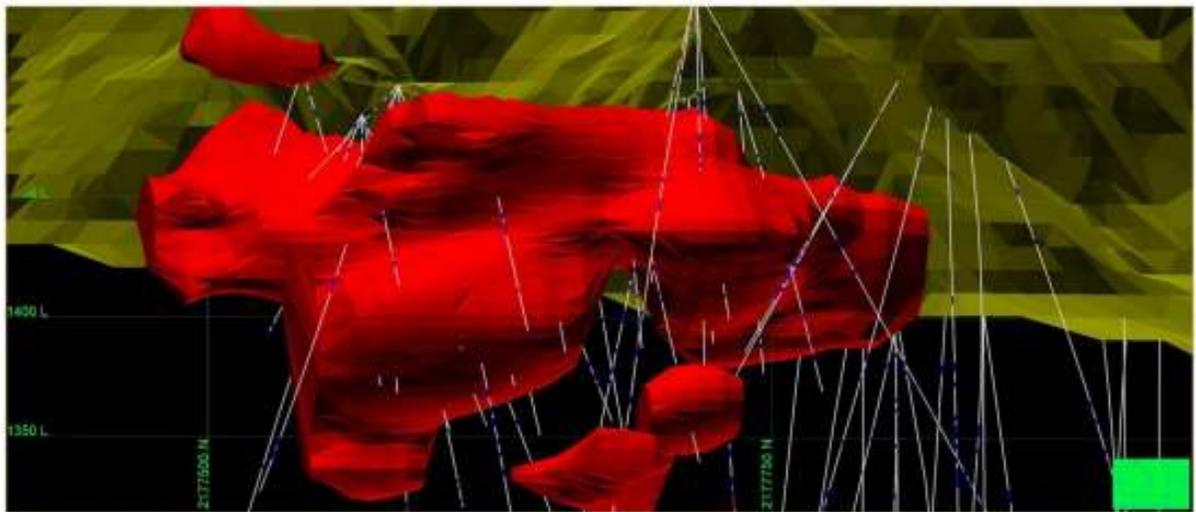
Source: Company

The El Dorado / Juan Bran zone outcrops on surface. It is modelled to be 420 m in width by 650 m in depth, with thickness ranging between 6 and 38 m.



*Source: Company*

The higher grade Santa Cruz zone is modelled to be 220 m in depth x 100 m in width.



*Source: Company*

**Both zones remain open for expansion on strike and down dip.** Metallurgical testing has shown high recovery rates with flotation - 95% copper, 89% gold and 84% silver.

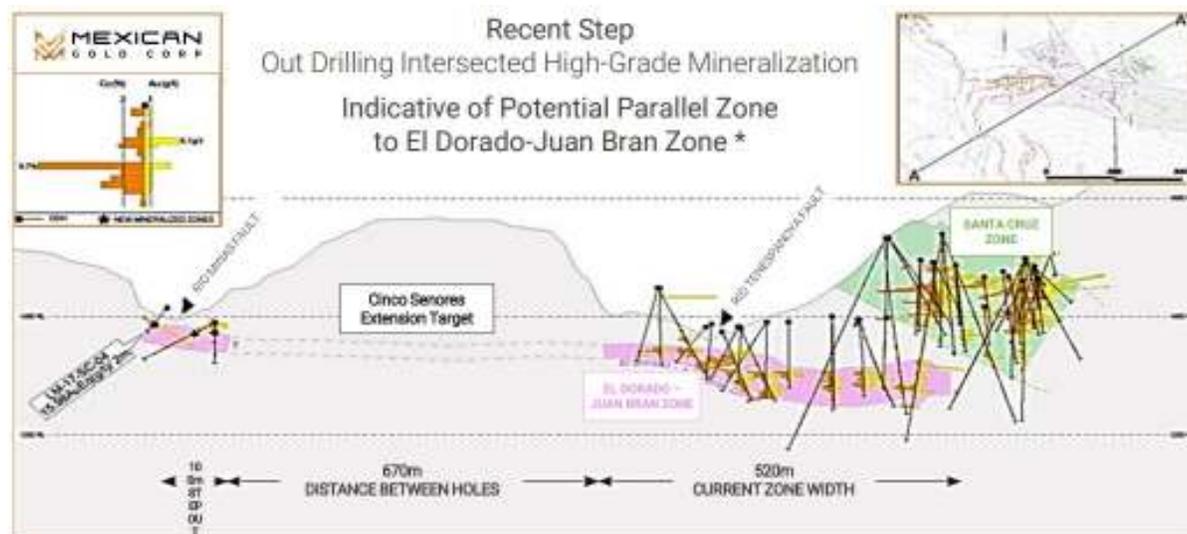
In September 2017, the company commenced a 3,000 m diamond drill program to expand the resource at El Dorado/Juan Bran (through step out drilling to the west), and test new targets identified by geophysical surveys and previous drilling at the Cinco Senores zone and the Las Minillas zones.

The **Cinco Senores** is estimated to be of a potential parallel zone, and located approximately 670 m west of the El Dorado/Juan Bran zone.

*Resource  
Upside*

Recent drilling returned:

- 10.8 g/t gold, 41.7 g/t silver and 2.8% copper or 15.98 g/t Au Eq over 2.0 metres



Source: Company

The **Las Minillas zone** is on the site of the historical high grade San Jose del Oro mine. A magnetic survey in 2011 identified a magnetic high anomaly covering approximately 1,000 metres by 750 metres. Drilling in 2011 returned 5.14 g/t gold, 8.6 g/t silver and 1.46% copper over 2.0 metres. Sampling of the underground workings of the San Jose del Oro mine returned up to 3.89 g/t gold, 26.6 g/t silver and 0.83% Cu over 2.0 metres

On October 5, 2017, the company announced highly positive results from the first step-out hole on the El Dorado/Juan Bran zone. The hole, which was drilled to a depth of 121 metres, intersected a 3 metre mineralized interval from 89 metres to 91 metres, and an 8 metre mineralized interval from 99 to 108 metres.

**We consider the next 3 to 6 months highly exciting as the company receives more results, and tests the potential of the new zones. Note that only two of the eight known zones have an initial resource estimate.**

Management and board hold 2.66 million shares of the company. Pallisade Global holds 6.72 million shares, or 20% of the total. We consider the strong institutional holding as a major vote of confidence on MEX's management and projects. The following table shows the direct holdings by management and board members.

*Management*

Management	Shares	% of Total
Brian Robertson, President / CEO / Director	1,210,070	3.5%
Ali Zamani, Chairman	1,328,500	3.9%
John Anderson, Director		0.0%
Gorden Glenn, Director	65,500	0.2%
Gavin Nelson, CFO	55,000	0.2%
<b>Total</b>	<b>2,659,070</b>	<b>7.7%</b>

Key Investors	Shares	% of Total
Pallisade Global Investments	6,718,100	19.6%
<b>Total</b>	<b>6,718,100</b>	<b>19.6%</b>

<b>Total</b>	<b>9,377,170</b>	<b>27.3%</b>
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Brief biographies of the management team and board members, as provided by the company, follow:

**BRIAN ROBERTSON - B.SC., P. ENG., GRAD. DIPL. BUSINESS ADMINISTRATION - PRESIDENT AND CEO**

Mr. Robertson has over 35 years of experience in all aspects of the industry from exploration, mine permitting, development and operations. During his 21 year career with Placer Dome, he operated mines in Canada and offshore. He has directed exploration programs throughout Canada, as well as in Mexico and Turkey.

**GAVIN NELSON - CHIEF FINANCIAL OFFICER**

Mr. Nelson has over 10 years of finance experience in public practice and corporate accounting and reporting, including being responsible for all levels of financial reporting and day-to-day accounting oversight for a number of public exploration companies, as well as other private entities. He is a member in good standing of the Institute of Chartered Accountants of Ontario. Mr. Nelson holds a Bachelor of Administrative and Commercial Studies, with a minor on Political Science from the University of Western Ontario.

**SHAUN DRAKE - CORPORATE SECRETARY**

Mr. Drake is the founder of DSA Corporate Services. Since 2000 he has delivered corporate secretarial services to an array of publicly traded clients on the TSX and TSXV, predominantly in the junior resource sector. Prior to founding DSA, Mr. Drake worked in the global trust services industry for fourteen years, and provided corporate services to a private bank. He is an Associate (ACIS) of the Institute of Chartered Secretaries and Administrators (ICSA).

**ALI ZAMANI - B.S. ECONOMICS - CHAIRMAN OF THE BOARD & DIRECTOR**

Mr. Zamani served as the Managing Partner of Overlook Investments LLC since January 2016. Prior to Overlook Investments, Mr. Zamani served as a Portfolio Manager at Gefinor Capital Management and as Chief Investment Officer of the GEF Opportunities Fund. From 2012-2013, Mr. Zamani was a Principal at SLZ Capital Management. Prior thereto, he was a Portfolio Manager at Goldman Sachs & Co from 2004 to 2012 responsible for managing the firm’s proprietary investments in publicly traded mining and materials companies.

**GORDEN GLENN- HB.SC. GEOLOGICAL SCIENCES - DIRECTOR**

Mr. Glenn has extensive experience in the mining sector, having held senior positions with a number of major Canadian Banks and Securities firms. His financial market experience includes mine finance, M&A, and project evaluation. Mr. Glenn is currently President, CEO and Director of Minnova Corp and holds an Honours Bachelor of Science degree in Geological Sciences from Queen's University.

**JOHN ANDERSON - DIRECTOR**

John Anderson has over 20 years of Capital market experience specializing in the resource sector. He was a founder and Financier of many start-up companies with experience on the TSX, NYSE, NASDAQ and London AIM and Swiss Stock Exchange. He was a founder of Deep 6 PLC, American Eagle Oil and Gas as well a founding general partner in Aquastone Capital LLC, a New York based gold fund. Anderson has raised more than \$35 million for Triumph Gold (formerly Northern Freegold). Prior to this, he worked in Investor Relations at Bema Gold and corporate Development at Manulife Financial in commercial real estate development.

Our net rating on MEX’s management team is 3.8 out of 5.0 (see below).



The company’s board has four members, of which, three are independent. We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director’s

ability to act in the best interest of the company. An unrelated/independent director can be a shareholder. The following table shows our analysis of the strength of MEX’s board.

	Poor	Average	Good
Three out of four directors are independent			X
Three directors hold shares of the company			X
The Audit committee is composed of 3 board members, two are independent		X	
The Management Compensation committee is composed of 2 board members, all are independent			X

At the end of Q3-2017 (ended March 31, 2017), the company had cash and working capital of \$1.10 million and \$0.70 million, respectively. The following table summarizes the company’s liquidity position:

(in C\$)	2016	2017 (9M)
Cash	\$44,377	\$1,098,557
Working Capital	-\$654,070	\$665,038
Current Ratio	0.09	1.90
LT Debt / Assets	-	0.9%
Monthly Burn Rate (incl. investing activities)	\$76,303	\$151,595
Cash from Financing Activities	-	\$2,419,434

In May 2017, the company completed a \$1.80 million private placement by issuing 6 million units at a unit price of \$0.30. Each unit consisted of a common share and a share purchase warrant (exercise price - \$0.45 per share until May 2019).

In May 2017, the company also issued 1.66 million shares to pay down \$0.48 million of outstanding debt to officers and directors.

The company currently has \$0.62 million in cash, and its total budget for the Phase 2 exploration program currently underway is \$0.40 million.

The company has 2.09 million options outstanding (weighted average exercise price of \$0.58 per share) and 25.61 million warrants (weighted average exercise price of \$0.39 per share) outstanding. At this time, none of the options / warrants are ‘in-the-money’.

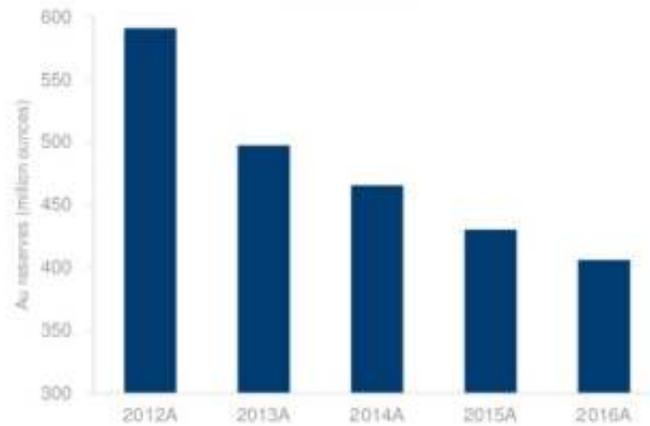
*Financials*

*Stock Options and Warrants*

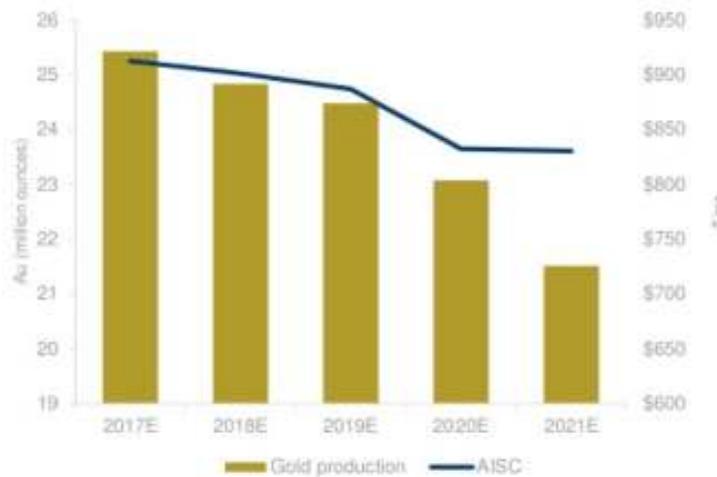
**Gold and Copper**

The industry has been experiencing a trend of declining reserves and production (see charts below) which we believe will encourage larger companies to seek high-quality and undervalued assets to add to their portfolios. The following charts show the combined production and gold reserves of the major gold producers:

**Gold Reserves (in Moz)**



**Production (in Moz)**



Source: Goldcorp Inc.

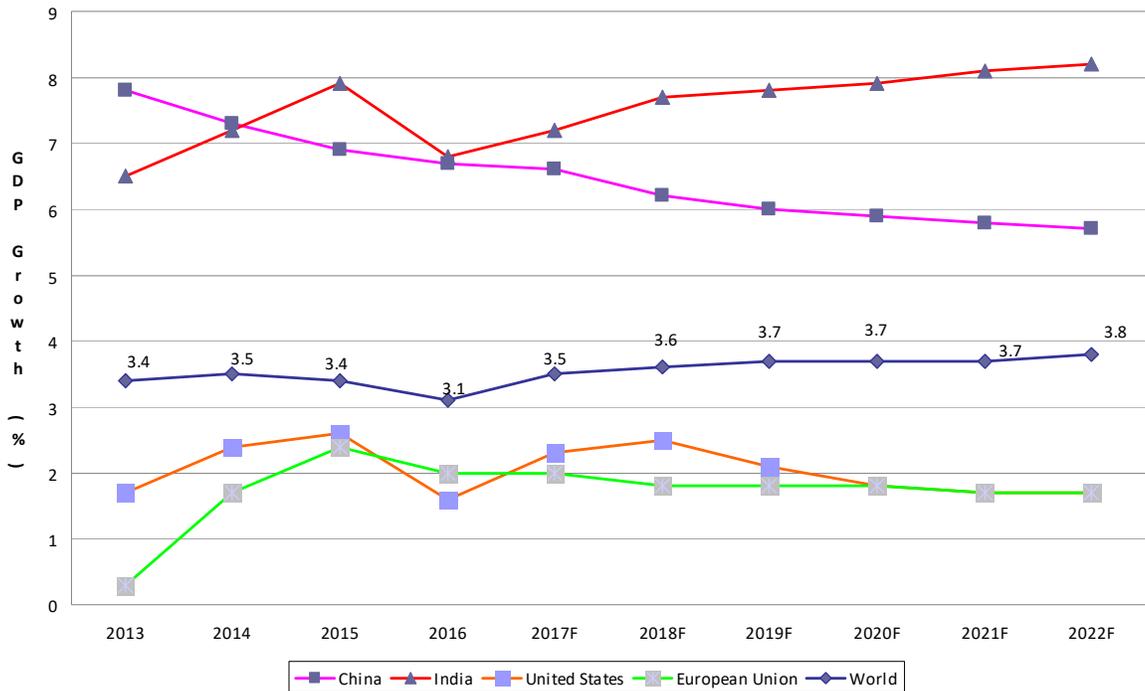
The above charts include production and reserve data of Goldcorp (TSX: G), Barrick (TSX: ABX), Newmont (NYSE: NEM), Newcrest (ASX: NCM), Agnico Eagle (NYSE: AEM), Kinross (TSX: K), Yamana (TSX: YRI), AngloGold (JSE: ANG), Gold Fields (JSE: GFI) and Harmony Gold (JSE: HAR).

In July 2017, Eldorado Gold (TSX: ELD) acquired Integra Gold (TSXV: ICG) for \$590 million. Integra held the Lamaque project near Val-d'Or. The project has an indicated resource of 1.04 Moz at 7.24 gpt and inferred resource of 1.18 Moz at 6.80 gpt. **We believe this is encouraging for juniors such as MEX, as the acquisition shows the attractiveness and marketability of high grade projects in the current environment.**

Copper prices are up almost 40% YoY. Dropping inventory levels was one of the primary reasons for the surge in prices.



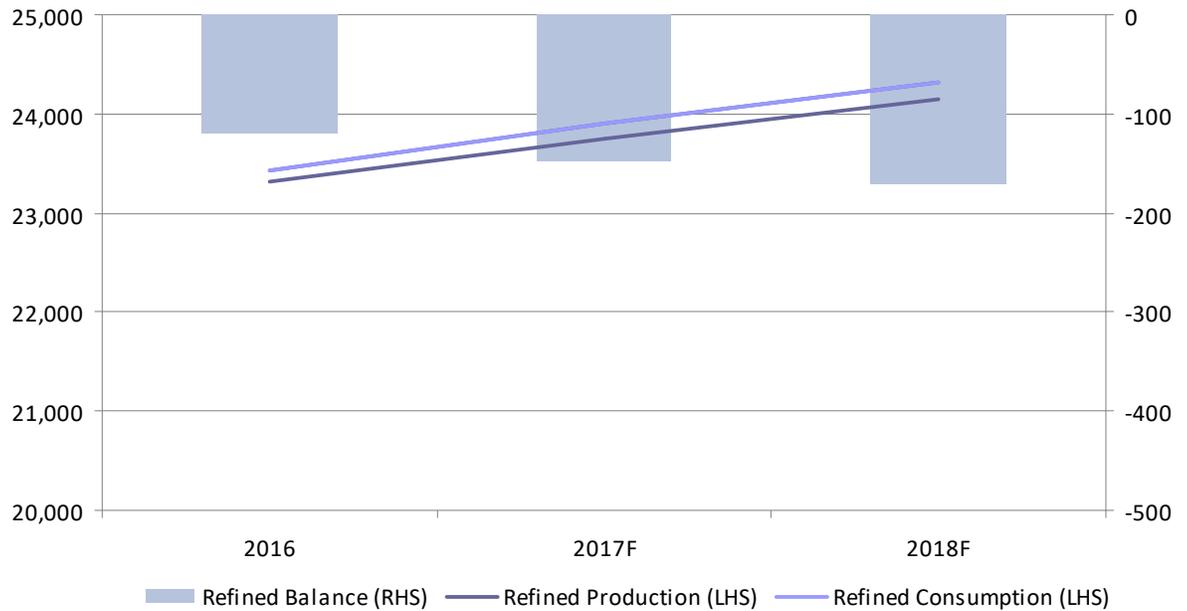
The following chart shows the expected increase in global Gross Domestic Product (“GDP”) growth through 2022. The positive near-term outlook for global GDP growth is based on improving rates in the U.S. and India, and a relatively flat European Union, offset by a slowdown in China.



Source: IMF

The following chart shows that the global supply deficit of copper is expected to increase YoY in 2017 and 2018.

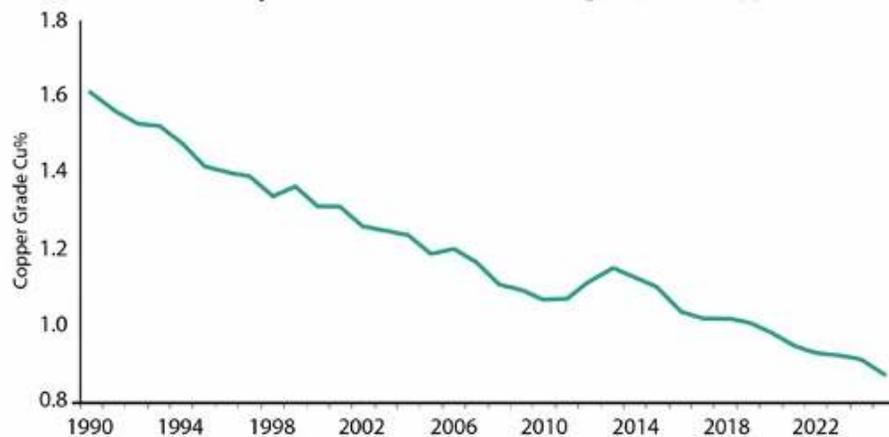
### Global Copper Supply / Demand



Source: ICSG

Another key factor that we believe bodes well for copper prices is the declining global average grades. The following chart shows that the global average grade has declined from approximately 1.6% in 1990, to 1.0% currently. The average grade is expected to continue to decline as shown below.

### Industry Head Grade Trends (Weighted Paid Copper)



Source: Brook Hunt

The following table shows the very thin net margins of copper companies in the past few years, indicating that current producers are finding it difficult to maintain profitable operations at \$2.00 - \$2.25 per lb copper.

**Valuation and Rating**

Copper > Key Stats & Ratios					
	CY2013	CY2014	CY2015	CY2016	Latest
<b>Profitability</b>					
Return on Equity %	7.6%	4.8%	(19.0%)	(4.6%)	1.9%
<b>Margin Analysis</b>					
Gross Margin %	11.7%	10.2%	9.4%	9.8%	10.9%
Net Income Margin %	2.3%	(0.2%)	(2.5%)	(0.7%)	0.6%
<b>Long Term Solvency</b>					
Total Debt/Capital	37.6%	43.5%	44.7%	40.8%	42.0%
EBITDA / Interest Exp.	6.8x	6.1x	4.4x	4.2x	4.5x
<b>Compound Annual Growth Rate Over Three Years</b>					
Total Revenue, 3 Yr CAGR %	11.6%	3.5%	(4.7%)	(6.6%)	(4.9%)
Cash from Operations, 3 Yr CAGR %	2.7%	(11.4%)	(17.8%)	(10.9%)	(7.3%)

The following table compares MEX to several other junior resource companies.

	Company	Location	Net Resource	Enterprise Value (\$,M)	EV / Resource
1	Torex Gold Resources Inc.	Mexico	7.80	\$2,118.00	\$271.5
2	GoGold Resources Inc.	Mexico	1.70	\$151.00	\$88.8
3	Alio Gold	Mexico	2.90	\$174.00	\$60.0
4	Primero Mining Corporation	Mexico / Canada	5.70	\$209.00	\$36.7
5	Golden Minerals	Mexico	1.70	\$57.00	\$33.5
6	Almaden Minerals	Mexico	4.00	\$135.00	\$33.8
7	Leagold Mining	Mexico	14.30	\$409.00	\$28.6
8	Telson Resources	Mexico	2.80	\$69.00	\$24.6
9	Argonaut Gold	Mexico / Canada	15.20	\$318.00	\$20.9
10	Gold Group Mining	Mexico	0.70	\$15.00	\$21.4
11	Mexican Gold	Mexico	0.66	\$7.62	\$11.5
	<b>Average</b>				<b>\$57.4</b>

\*Net Resource = 100% of Measured and Indicated + 50% of Inferred Resources

MEX's Resource (net)	663,500
Average EV/ Resource Ratio (comparables)	\$43.0
Fair Value of Assets	\$28,563,201
Working Capital, net of debt	\$620,000
Fair Value of MEX Shares	\$29,183,201
No. of Shares (calculated based on the treasury stock method)	34,341,660
<b>Fair Value per Share</b>	<b>\$0.85</b>

Source: FRC

MEX is currently trading at an Enterprise Value (“EV”) to resource ratio of \$11.5 per oz versus the comparables average of \$57.4 per oz. Considering the early stage nature of MEX relative to the comparables used in the table above, we are applying a 25% discount to the average ratio and valuing MEX based on a ratio of \$43 per oz. We are initiating coverage on MEX with a BUY rating and a fair value estimate of \$0.85 per share.

## Risks

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

- The value of the company is highly dependent on commodity prices (primarily gold).
- The company does not currently have any operating mines.
- Exploration and development risks.
- Access to capital and share dilution.

As with most junior exploration / development companies, we rate MEX'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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