

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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## SilverCrest Mines, Inc. (TSX.V: SVL) – Resource Expansion at Santa Elena and Cruz de Mayo

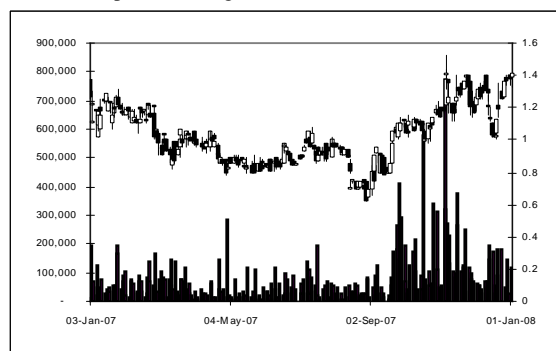
Sector/Industry: Junior Mining

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

### Market Data (as of January 3, 2008)

Current Price	C\$1.46
Fair Value	C\$3.00 (↑)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.62 – C\$1.52
Shares O/S	35,070,675
Market Cap	C\$51.20 mm
Current Yield	N/A
P/E	N/A
P/B	4.43
YoY Return	18.7%
YoY TSXV	-1.1%

\*see back of report for rating and risk definitions



### INVESTMENT HIGHLIGHTS

- SilverCrest holds three silver properties in Sonora, Mexico and one in Santa Ana, El Salvador.
- The company has NI 43-101 compliant indicated resource estimates totaling 30.99 million ounces silver, 441,700 ounces gold, and 49.4 million pounds zinc, and inferred resources totaling 22.69 million ounces silver, 120,800 ounces gold and 29.2 million pounds zinc, on three of their properties.
- Resources include an initial NI 43-101 compliant resource estimate at Cruz de Mayo and an updated resource estimate at Santa Elena.
- A pre-feasibility study at Santa Elena is underway. The company is planning an open pit, 2,500 tpd heap leach operation. They hope to put this project into production by 2009.
- Excellent exploration potential still exists at Santa Elena. The main mineralized zone is thickening and expanding to the east, and drilling is continuing there. In addition, a geophysical survey has identified another zone, Rosita Sur, with a resistivity high and IP low comparable to or better than the Main Zone.
- We have raised our fair value estimate from \$2.50 per share to \$3.00 per share.

### RISKS

- The success of drilling, expansion and increasing favorable resource estimates are very important for the company's future prospects.
- There has been anti-mining sentiment in El Salvador, and non-governmental organizations are seeking a mining ban in the country. The company is not working on the El Zapote property in El Salvador pending resolution of this issue.

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

(C \$)	2003	2004	2005	2006	2007 9 mo
Cash + Short term Inv	2,802,185	4,246,126	1,643,164	6,283,349	4,144,236
Working Capital	2,809,941	3,870,826	1,592,320	6,296,634	3,964,326
Mineral Assets	303,676	2,005,030	3,817,865	5,639,336	7,582,883
Total Assets	3,202,704	6,378,504	5,585,084	12,063,676	12,000,863
LT Debt	-	-	-	-	-
Net Loss	(689,668)	(1,737,657)	(894,402)	(832,771)	(429,760)
Loss per Share	(0.07)	(0.08)	(0.03)	(0.03)	(0.01)

SilverCrest Mines ("SVL") owns three silver properties in northern Mexico and one in El Salvador, two of which they aim to put into production. They currently have 43-101 compliant resource estimates on three of their properties. The company aims to build a 150 million ounce silver equivalent resource and become a low cost silver producer, making them a target for acquisition.

## Company Overview

In our initial report, dated January 8, 2007, we introduced SilverCrest Mines, a Vancouver, BC, based company with four silver properties in Latin America. Their current properties are located in the state of Sonora, Mexico and the province of Santa Ana, El Salvador. They have made significant progress on these projects. In 2007, the company has focused on continued drilling at Santa Elena and Cruz de Mayo, Mexico, including the delineation of a NI 43-101 compliant resource estimate at Cruz de Mayo and expansion of the resource estimate at Santa Elena.



Source: SilverCrest Mines

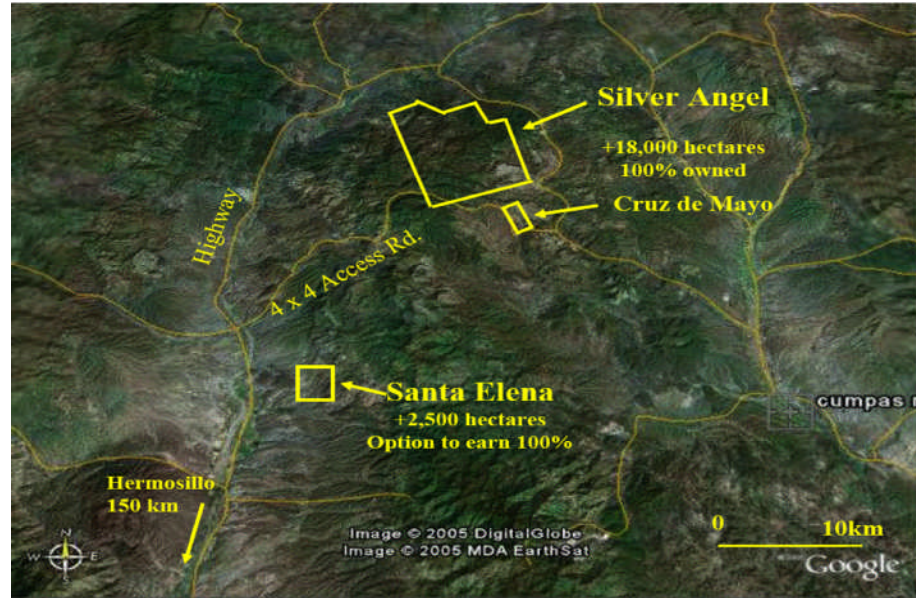
SilverCrest's priority is production, and they are working towards that goal at two of their properties. They expect to put the Santa Elena silver and gold property in Sonora, Mexico into production first, and the El Zapote silver-zinc property in El Salvador may follow if an exploitation license is granted by the government sometime in 2008. Management is undertaking prefeasibility and feasibility studies at Santa Elena and El Zapote, respectively.

### SilverCrest Gold and Silver Resources

Property	Resource Category	Tonnes	Ag g/t	Au g/t	Contained Silver Ounces	Contained Gold Ounces	Contained Silver & Silver Equiv. Ounces <sup>3</sup>
Santa Elena <sup>2</sup>	Indicated	7,378,300	74.20	1.81	17,600,900	428,700	43,327,100
	Inferred	2,608,000	73.06	1.37	6,125,700	114,800	13,016,700
Cruz de Mayo <sup>2</sup>	Indicated	1,141,000	64.15	--	2,353,400	--	2,353,400
	Inferred	6,065,000	66.50	--	12,967,100	--	12,967,100
El Zapote <sup>2</sup>	Indicated	1,925,200	177.70	0.19	11,036,000	13,000	11,816,000
	Inferred	1,086,400	101.60	0.18	3,593,000	6,000	3,953,000
<b>Total Indicated Resources</b>					<b>30,990,400</b>	<b>441,700</b>	<b>57,496,500</b>
<b>Total Inferred Resources</b>					<b>22,685,800</b>	<b>120,800</b>	<b>29,936,800</b>

<sup>2</sup> Cutoff grade for Santa Elena and El Zapote is 30 gpt Ag equivalent. Cutoff for Cruz de Mayo is 30 gpt Ag.

<sup>3</sup> Conversion of gold to silver based on 60:1 silver to gold ratio, Assumes 100% metal recovery.

**Mexico**

Source: SilverCrest Mines, Inc.

**Santa Elena,  
Sonora, Mexico**

**Property Overview:** SilverCrest acquired the 2,500 hectare Santa Elena property in December 2005, and subsequently acquired an additional concession for a total of 3,160 hectares. They released an initial resource estimate on this property in October 2006, and subsequent resource expansion in November 2007. This project has the greatest potential for production and is currently in prefeasibility.

**Accessibility and Infrastructure:** The Santa Elena property can be accessed year round by 90 km of paved highways east from Hermosillo to Ures, then 50 km north along a paved road to the community of Banamichi, then by a graveled maintained road 7 km east of Banamichi.

**Ownership:** On December 2005, SilverCrest entered into an agreement to acquire up to 100% of the Santa Elena property through staged payments over five years totaling US\$3 million to its Mexican owner. A final payment of US\$1 million is conditional upon receipt of a feasibility study and all mining and operating permits. Approximately 40% of the total payments may be paid in common shares of SilverCrest at the company's discretion.

**Geology and Mineralization:** Extensive surface exploration in 2007 identified several additional mineralized zones that warrant follow-up. A parallel zone to the Santa Elena Main Zone, named Rosita Sur, and a stockwork and quartz vein target named Araña provide upside exploration potential. The mineralization at Araña suggests that it represents the upper levels of an epithermal system.

**Metallurgy:** Additional metallurgical test work has been initiated to optimize heap leaching of Santa Elena mineralization. Final column-percolation tests indicated a heap leach recovery of 60-70% for gold and 30-40% for silver. Bulk samples collected from the Main Zone on the surface and two underground levels were used for this work. Feasibility level metallurgical studies are being incorporated into the ongoing pre-feasibility study.

**Current Status:** In 2007, the company was primarily focused on advancing Santa Elena to a production decision. A large Phase II drilling program was focused on resource expansion and infill drilling to upgrade the geologic certainty. A detailed underground sampling program assisted in adding resources at a high geologic certainty. In addition, the company has already begun environmental baseline work and have been looking at cash flow scenarios, open pit designs, cost estimates, engineering, and economic analysis as part of the ongoing preliminary feasibility study. This study is expected to be completed in early 2008.

The Phase II drilling program, comprised of 40 holes totaling approximately 4,000 meters, was designed to expand the resource estimate to the east and at depth, upgrade the geologic certainty through infill drilling, as well as test the footwall zone and new mineralized zones identified through surface exploration. The area of proposed facilities were drilled for condemnation purposes. An additional drill rig was added in September 2007. Drilling and sampling have extended the known strike length of the Main Zone to 1,200 meters. The resource area for the starter pit is approximately 800 meters long, 15-30 meters wide, and 150 meters deep.

**Resource Estimate:** SilverCrest recently released an updated resource estimate based on 40 drill holes and extensive underground sampling. The 2007 resource estimate, in green below, improved upon the previous resource estimate significantly, especially in upgrading inferred resources to the indicated category. An updated resource estimate is expected in Q2-2008. The company is currently drilling hole #65.

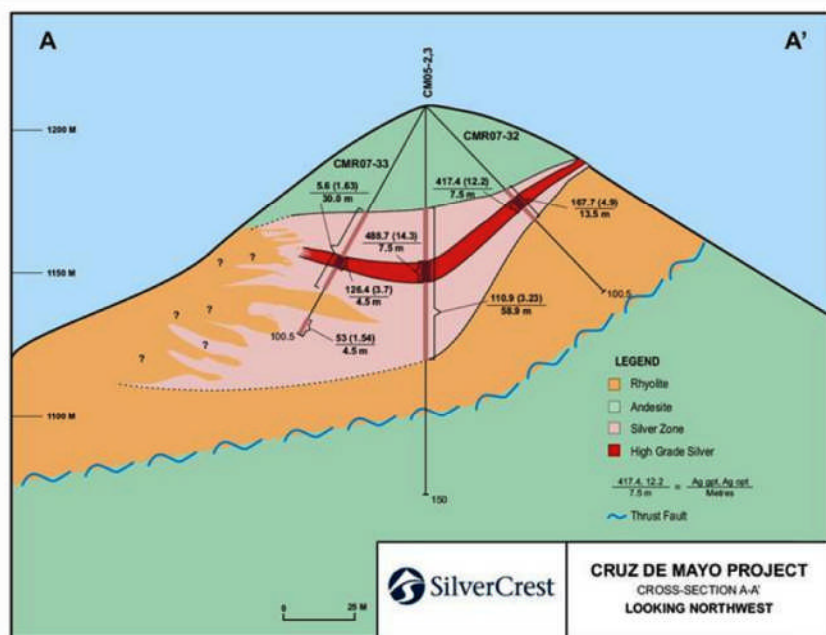
Resource Category	Tonnes	Ag g/t	Au g/t	Contained Silver Ounces	Contained Gold Ounces	Contained Silver & Silver Equiv. Ounces
Indicated	2,458,900	55.7	2.16	4,391,000	171,000	14,651,000
Inferred	3,514,300	78.3	1.42	8,832,000	159,000	18,372,000
Indicated	7,378,300	74.20	1.81	17,600,900	428,700	43,327,100
Inferred	2,608,000	73.06	1.37	6,125,700	114,800	13,016,700

**Timeline:** A preliminary feasibility study currently underway is costing and designing an open pit mine operating at approximately 2,500 tonnes of ore per day for a period of 7 to 10 years. The study is being prepared by Sol y Abode, Ingenieros Asociados, S.A. de C.V., an independent engineering firm based in Hermosillo, Mexico. The pre-feasibility study is expected to be completed by the end of 2007. The company hopes to make a production decision by the end of 2007, with initial production commencing in late 2008 and full-scale production achieved in 2009. The company expects to submit their application for a mine permit early in 2008. **Longer term, the company is considering the economics of an underground operation and the construction of a conventional mill to process high-grade material at depth.** We believe this is a good option for the company, as heap leaching's lower recovery rates do not completely unlock the value of Santa Elena in the long term. Heap leaching provides a quick route to positive cash flow.

**Cruz de Mayo**

**Property Overview:** The Cruz de Mayo prospect is located adjacent to SilverCrest's Silver Angel land holdings, east of the Santa Elena property. In 2007, the company completed a Phase II reverse circulation drilling program and metallurgical test work. An initial NI 43-101 compliant resource estimate was completed in November 2007.

**Geology and Mineralization:** Through two phases of drilling, the company has delineated an oxidized low-grade silver stockwork zone over a strike length of 2.5 kilometers. 800 meters of this length has been tested with detailed drilling to the level of a resource estimate. The zone is 20-45 meters wide in the southeast, and expands to 40-60 meters in the central and northwest areas. It has been drilled to a depth of 200 meters. A narrow, high-grade zone approximately 3-10 meters thick occurs within the broader stockwork zone. Grades in this zone range from 106-393 g/t silver. The geometry of the deposit is favorable for open pit extraction.



Source: SilverCrest Mines Inc.

**Metallurgy:** Preliminary bottle roll tests completed in July 2007 indicates that mineralization at Cruz de Mayo is amenable to cyanidation leaching. Six samples were blended to represent low, medium, and high-grade silver mineralization. This work justifies continued testing and exploration to better delineate Cruz de Mayo and advance the property towards a production decision.

**Current Status:** SilverCrest completed a 27 hole Phase II reverse circulation drill program from January – March 2007. A NI 43-101 compliant resource estimate was completed in November 2007. This resource is contained in only 800 meters strike length, and the company plans to begin a drilling program in Q2-2008 to expand the resource along the 2.5 kilometer long corridor.

**Resource Estimate:** The resource below is calculated at a 30 g/t silver cut-off. The

company is still analyzing the gold content of this resource, and have not reported average grades at this time.

Property	Resource Category	Tonnes	Ag (g/t)	Contained Silver Ounces
Cruz de Mayo	Indicated	1,141,000	64.15	2,353,400
	Inferred	6,065,000	66.50	12,967,100

### *El Salvador*

In our initial report, we discussed the political risk associated with El Salvador. There has been controversy over mining for the last two years, with several non-governmental organizations (NGOs), the Catholic Church of El Salvador, and some local communities protesting several potential gold mining projects in the province of Chaletenango, El Salvador. SilverCrest's El Zapote project in the western province of Santa Ana has remained outside current controversy. However, an announcement in July by NGOs intending to ask the government to ban metallic mining in El Salvador could impact SilverCrest's feasibility stage El Zapote project there. El Salvador is completing a full review of their mining law and management has put the El Zapote project "on hold" pending resolution of the political issues.

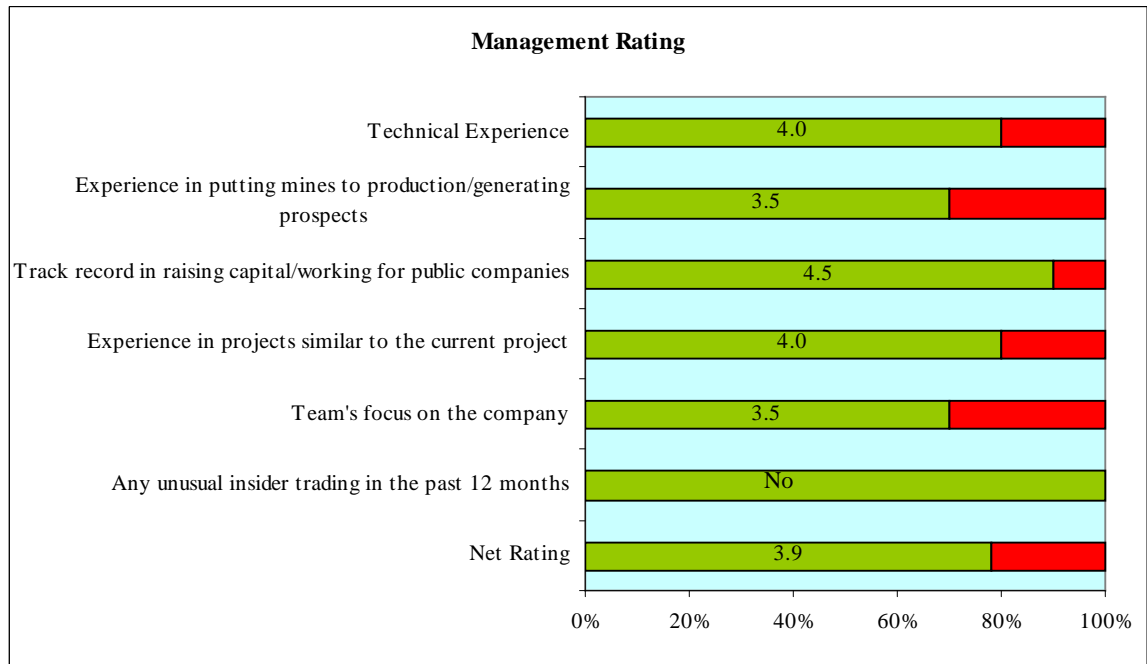
### *El Zapote, Santa Ana, El Salvador*

**Property Overview:** The El Zapote property covers 4,200 hectares. The project is considered advanced stage and the company has applied for an exploitation license from the country's Department of Mines.

**Current Status:** SilverCrest is still in feasibility for the El Zapote project and is currently analyzing the comparison between a conventional mill facility and a heap leach operation. They are considering a heap leach operation to reduce capital cost and fast track production, but the economics of the zinc value in the ore may necessitate a conventional mill in the long term. At this time, the company has put the project on hold pending resolution of the revision of mining law in El Salvador. Upon receipt of an exploitation license, management estimates a 12-18 month start up time for a heap leach operation.

### *Management Rating*

We have developed a management rating system as a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management's time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for SilverCrest (see below) was 3.9, which we have rated above average.** SilverCrest's management team is very experienced, both technically and in all aspects of running a public company. Mr. Drever, President of the company, has served as an executive officer and director of major mining companies, including Placer Dome.



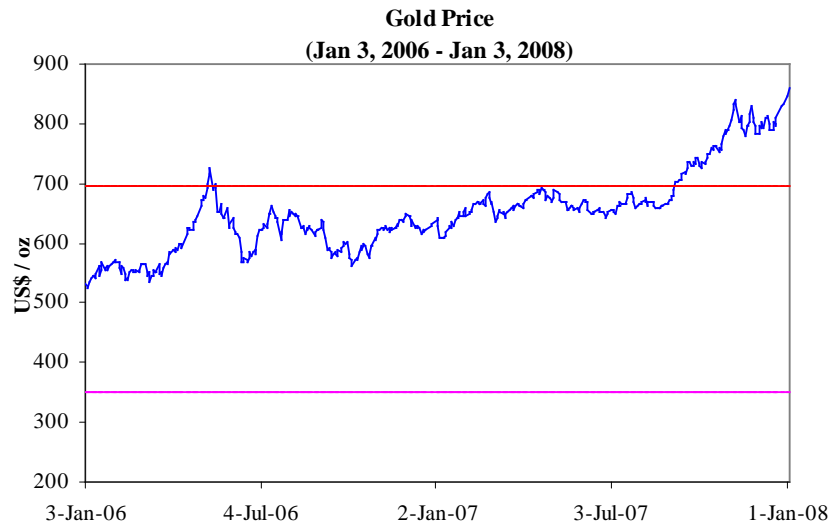
**Strength of Board**

The Toronto Stock Exchange recommends that the Board of Directors of every company include independent or unrelated directors who are free of any relationship 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. In this report, we introduce our strength of board rating for SilverCrest Mines, which uses information available from the company’s annual “Management Information Circular” to ensure that the company has an independent Board of Directors, Audit Committee, and Compensation Committee. This report also identifies any non-arms length transactions and management’s compensation.

SilverCrest’s Board of Directors is made up of 4 individuals: J. Scott Drever, Barney Magnusson, Graham Thody, and George Sanders. Graham Thody does not hold shares in the company. The related/non-independent directors are J. Scott Drever and Barney Magnusson, as they are named executive officers of the company. The Audit Committee is made up of J. Scott Drever, Graham Thody (Chairman), and George Sanders. The Corporate Governance and Compensation Committee is made up of Graham Thody and George Sanders. We have confidence in the independence of SilverCrest’s corporate governance.

**Outlook for Gold**

The chart below shows gold prices since January 2006. Gold prices hit their 28-year record high on January 2, 2007, and as of January 3, 2007, was trading at US\$859/oz, which reflects a YOY increase of 37%.



Source: KITCO

Although gold prices have risen considerably in the past few months, and are currently trading at record highs, we have maintained our positive outlook on gold due to the following macro economic conditions:

Gold is traditionally viewed as a capital preservation asset and regarded as a better hedge against the U.S. dollar, inflation and geopolitical risks, than any other commodity. Historically, gold prices have been negatively correlated to the U.S. dollar. The U.S. dollar is expected to depreciate with respect to other major global currencies, based on an expected slow down in the U.S. economy, and relatively lower real interest rates in the U.S., compared to other major countries in the world.

The U.S. housing industry is not expected to recover before the end of 2008, and recently, the U.S. economy reported job losses for the first time in four years. Both these factors further signal a slowdown in the U.S. economy. Even though the U.S. Federal Reserve cut interest rates from 5.25% to 4.25% in their last three meetings, we expect to see further rate cuts in the first half of 2008 to tackle the ongoing credit crunch problems and the softening U.S. housing industry. The rate cuts in turn will add to inflationary pressures and simultaneously depreciate the value of the U.S. dollar, which we believe is an ideal condition for gold prices to move higher.

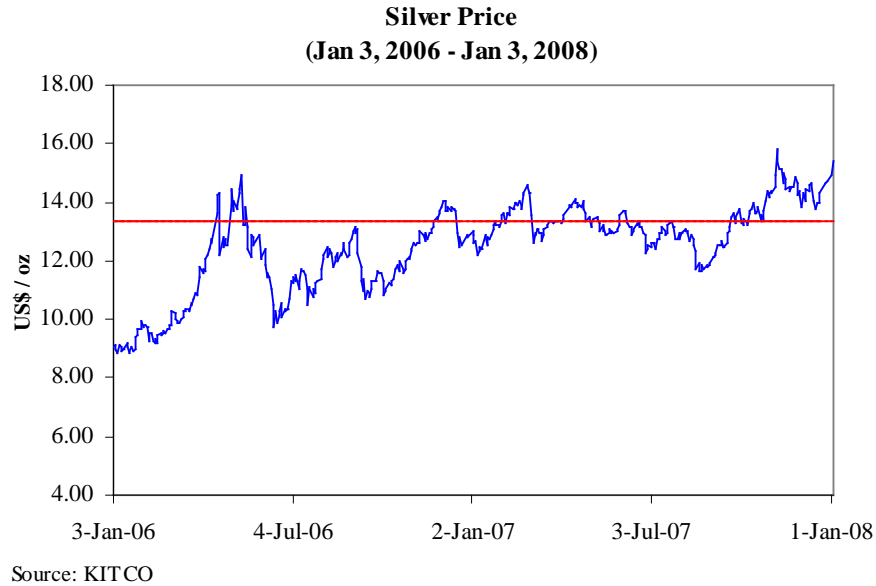
We have also noticed a positive correlation between gold and oil prices, in times of high oil prices. High oil prices create inflationary expectations among investors and lead them to drift towards gold. Oil recently exceeded \$100/bbl, and prices are expected to stay above \$60.00/bbl going forward (till at least 2017), which we believe will also have a positive effect on the demand for gold.

Therefore, based on a forecasted depreciation in the U.S. dollar, higher inflationary expectations, relatively lower U.S. real interest rates, and high oil prices, we continue to be

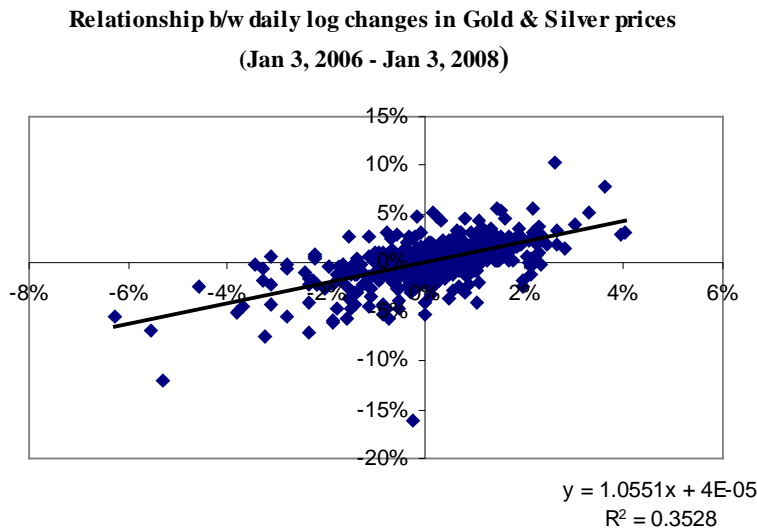
bullish on gold prices. Although we do not expect prices to move up as fast as they did in the past few months, we expect prices to gradually move up, as the U.S. economy moves closer to a recession. The average forecasts for gold prices are US\$749/oz in 2008, and US\$805/oz in 2009. Based on our continued positive outlook on long-term gold prices, we now use a long-term gold price of US\$600/oz (instead of US\$550/oz) in our revised valuation models.

**Outlook on Silver**

The chart below shows silver prices since January 2006. As of January 3, 2008, silver was trading at US\$15.4/oz, which reflects a YOY increase of 22%.



Although the supply and demand fundamentals of silver play a key role in setting prices, we believe silver prices will continue to follow gold in the short-term and mid-term. Silver prices have moved in tandem with gold prices in the past (as shown in the chart below), and we believe that this will continue to do so going forward in 2008 and 2009.



*Our study shows that a statistically significant coefficient of correlation (0.59) and R<sup>2</sup> (35.3%) existed between daily log changes of gold and silver prices.*

Our outlook on gold is positive based on a forecasted depreciation in the U.S. dollar, higher inflationary expectations, relatively lower U.S. real interest rates, and high oil prices. Also, we believe that strong investment demand for silver (as of January 2, 2008, iShares Silver Trust assets were 150.80 million oz, which reflects an increase of 618% since the introduction of the ETF in April 2006), amidst decreasing physical demand, will also help prices stay high. The average forecasts for silver prices are US\$15/oz in 2008, and US\$15.50/oz in 2009.

### **Financial Analysis**

In the first nine months of FY2007 (ended September 2007), the company posted a net loss of \$0.43 million (EPS: -\$0.01) versus a net loss of \$0.69 million (EPS: -\$0.02) in the comparable period in the previous year. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$0.25 million per month in the first nine months of FY2007, compared to \$0.19 million per month in FY2006 (12-month period). The table below shows the company's cash and liquidity position at the end of Q3-2007.

	2003	2004	2005	2006	2007 - 6 mo
Working Capital	2,809,941	3,870,826	1,592,320	6,296,634	3,964,326
Current Ratio	59.4	9.4	13.4	55.9	10.0
LT Debt / Assets	-	-	-	-	-
Burn Rate (per month)	(49,430)	(238,123)	(182,191)	(191,105)	(250,950)
Cash from financing activities	3,487,983	3,918,357	132,916	6,937,652	2,408,750

At the end of Q3-2007, the company had \$4.14 million and \$3.96 million in cash + short-term investments and working capital, respectively, compared to \$6.28 million and \$6.30 million at the end of FY2006.

**Stock options and warrants:** At the end of September 2007, the company had 2.77 million stock options outstanding (all of them are currently 'in-the-money' – assuming that none of the outstanding options were exercised since the end of September 2007), with a weighted average exercise price of \$0.81 per share, and maturity periods between June 2008 and September 2011. The company also had 7.02 million warrants outstanding (all of them are currently 'in-the-money' – assuming that none of the outstanding warrants were exercised since the end of September 2007), with a weighted average exercise price of \$1.06 per share, and maturity periods between March 2008 and December 2008.

If all the 'in-the-money' options and warrants and options that expire in 2008 are exercised, the company has the potential to raise up to \$7.77 million in cash in 2008.

**Conclusion:** Our discussions with management indicated that if the Santa Elena project proceeds to production, the company expects to spend approximately \$18.75 million in the next 12 - 18 months, including \$18 million for the Santa Elena project, and \$0.75 million for the Cruz de Mayo project. Based on its cash position of \$4.14 million (cash + short-term investments), we believe the company will have to raise close to \$20 million in the next 12 to 18 months.

**Valuation**

Our revised DCF valuation on the company is \$2.00 per share, up from \$1.75 per share.

<b>Valuation Summary</b>	
Santa Elena & Cruz de Mayo	\$1.63
El Zapote	\$0.27
Working Capital	\$0.10
Debt	-
<b>Value per Share</b>	<b>\$2.00</b>

Our valuation increased as our valuation on the Santa Elena and Cruz de Mayo projects increased from \$1.04 per share to \$1.63 per share, offset by a drop in valuation on the El Zapote project from \$0.52 per share to \$0.27 per share.

**Revised valuation on the Santa Elena and Cruz de Mayo projects:** We made the following changes in our revised valuation model.

1. Increased resource estimates to reflect the new estimates
2. Based on our increased confidence in long-term gold prices, we have raised our long-term gold price forecast from US\$550/oz to US\$600/oz.
3. We also raised our operating rate estimate from 1,750 tpd to 2,250 tpd.

As a result of the above-mentioned changes, our valuation on the project increased from \$36.01 million (\$1.04 per share) to \$62.43 million (\$1.63 per share).

Note that even though the company is considering the economics of an underground operation, and the construction of a conventional mill to process high-grade material at depth, we have assumed a 2,500 tpd heap leach operation, for conservatism. A summary of our valuation model is shown on the next page.

<b>Santa Elena &amp; Cruz de Mayo - DCF Summary</b>	
Tonnes	12,855,800
Average ore tons per year	875,000
Mine Life (years)	16
Contained Silver (in oz)	29,501,413
Contained Gold (in oz)	486,801
Recovery (Ag)	40%
Recovery(Au)	70%
Silver Price (US\$/oz)	\$11.00
Gold Price (US\$/oz)	\$600.00
Avg. Operating Costs (US\$ / tonne)	\$12.00
Capital Costs	20,000,000
Discount Rate	12.84%
NPV (C\$)	\$62,426,379
Shares	38,254,190
<b>Value per Share (C\$)</b>	<b>\$1.63</b>

Considering the risks involved in the El Zapote project, we have lowered our fair value estimate on the project from \$18.09 million (\$0.52 per share) to \$10.22 million (\$0.27 per share). Valuation dropped as we raised the discount rate from 15% to 17.49% (12.49% - discount rate of a similar project in a relatively risk-free country + 5% - country risks). We did not make any other noteworthy change in our valuation model on the El Zapote project.

**Comparable Valuation:** As a result of the increase in resource estimates, our relative valuation on the company increased from \$4.33 per share to \$4.83 per share.

<b>Comparables Valuation</b>						
		<b>SYM</b>	<b>Price</b>	<b>Enterprise Value (EV)</b>	<b>Resources (Ag eq. in oz)</b>	<b>EV / Resources</b>
<b>1</b>	<b>ECU Silver Mining Inc.</b>	ECU	\$ 2.11	\$517,447,609	98,400,000	<b>\$5.26</b>
<b>2</b>	<b>Endeavour Silver Corp.</b>	EDR	\$ 4.21	\$181,258,810	41,000,000	<b>\$4.42</b>
<b>3</b>	<b>Fortuna Silver Mines</b>	FVI	\$ 3.15	\$211,671,638	72,853,818	<b>\$2.91</b>
<b>4</b>	<b>Orko Silver Corp.</b>	OK	\$ 1.83	\$173,772,236	73,140,000	<b>\$2.38</b>
<b>5</b>	<b>Avino Silver and Gold Mines</b>	ASM	\$ 1.75	\$27,736,558	12,595,692	<b>\$2.20</b>
<b>6</b>	<b>Silver Eagle Mines Inc.</b>	SEG	\$ 0.85	\$28,210,763	30,200,000	<b>\$0.93</b>
<b>7</b>	<b>SilverCrest Mines<sup>x</sup></b>	SVL	\$ 1.46	\$51,886,792	77,461,776	<b>\$0.67</b>
					<b>Average</b>	<b>\$2.34</b>
<b>Fair Value of SVL's Stock</b>						<b>\$4.83</b>

\* Resource calculations do not include zinc; discounted El Zapote project's resource estimates by 50% to account for increased risks

Notes:

- Stock prices are as of January 3, 2008
- Resource calculations include all the indicated and inferred resource
- Since (1) and (2) are producing companies, we have discounted their ratios by 25%

**Conclusions & Rating**

We have been very pleased with the company's work since our initial report and continue to believe these projects have excellent potential. The resource expansion at Santa Elena and Cruz de Mayo highlights this. We believe 2008 will be an exciting year for the company, as they advance Santa Elena towards production.

**Based on our revised valuation models and review of the company's projects we reiterate our BUY rating on the company, and raise our fair value estimate from \$2.50 per share to \$3.00 per share.**

**Risks**

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

- SilverCrest's success is dependent on the management and development of its exploration projects.
- The success of drilling, expansion and increasing favorable resource estimates are very important for the company's future prospects.

**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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