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“Hume with a View” October '08

A Recession-Proof Stock Play

Investors have been rattled by the market's massive up, down and sideways swings. It's pretty devastating when what happens in the U.S. Congress severely impacts both Wall Street and Bay Street.



Ron Hume, Publisher

That's why, in today's safety-first market, it's great to be able to profile a company like Hodgins

Auctioneers Inc. In my view, this company has it all: stability, a long track record and a huge potential upside. The family-run firm has been around for over half a century, 51 years to be exact. Its top management owns a big chunk of the firm — and Hodgins is a business that prospers in all market conditions — both good and bad.

Public in a Prairie Sort of Way

Hodgins went public four years ago, but in the sort of low-key way that you would expect of an outfit based in Melfort, Saskatchewan (a city of just over 5,000, a couple hours drive northeast of Saskatoon). Rather than touting their accomplishments, management of this auctioneering company has been focused on the nuts and bolts of running a public company, making a series of small acquisitions — and laying the groundwork for rapid growth.

Taking it to the Next Level

When low-key Saskatchewaners get excited, there's likely a good reason. Grant Hodgins, the second-generation

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Hodgins Auctioneers Inc.: Ready To Tap into New Markets for Rapid Growth

After a half century in the agricultural and industrial auction business, Hodgins Auctioneers Inc. (HA: TSX-V) is ready to break out of its Saskatchewan base through acquisitions, expansion and the Internet's huge potential.

While many companies go public as a way for executives and shareholders to cash in or to capitalize on an immediate opportunity, Hodgins Auctioneers Inc. has used its first four years as a public entity to strengthen its finances and map out a clear strategy for growth. **Today, the Melfort, Sask.-based auctioneering firm is intent on becoming a top-tier player in the agricultural, industrial and real estate auction markets through geographic expansion. Wisely, the company has positioned itself to cash in on the huge potential of the \$80-billion online auto auction market.**

No Barriers to Growth

Hodgins Auctioneers has an immediate opportunity for sales and profit growth in the form of geographic expansion beyond its Prairie base. **“We have an aggressive plan for expansion of our sales force,” says Grant Hodgins, the company's General Manager. “For very little capital, and very quickly, we can engage sales staff to be present in a large part of the country. There are no huge barriers to growth. You just hire a bunch of good sales people and you're in the game.”** Although it regularly does business in markets outside of Saskatchewan, and has a database of more than 100,000 qualified buyers in Canada and the U.S., Hodgins has taken its first real step to become a national player in the auctioneering business with the establishment of a new sales office in Mississauga, Ontario. Hodgins also has

full expectations that Alberta will provide further growth.

While agriculture will remain its core sector, Hodgins intends to devote more energy to expanding its presence in industrial and construction auctions, huge markets with even higher profit margins.

Size Matters in Auctioneering

Although the industry remains very fragmented in Canada, the top auctioneering contracts are dominated by a few of the largest, best-capitalized players. Along with its geographic expansion, Hodgins intends to carry out a secondary financing to become “instant contenders” for larger auction contracts across the country. “On bigger jobs, there are only a few players contending. Sometimes there is only one player,”

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Hodgins Auctioneers Inc.: Ready To Tap into New Markets for Rapid Growth

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notes Hodgins. "If we had a pool of capital behind us, all of a sudden we would join the top three bidders because there are only two or three." To vault from a regional competitor to a national one, "we need more people on the ground and more money in the bank," he says.

Hodgins is also currently on the hunt for acquisitions. It has made some small acquisitions since it went public and carried out preliminary talks with other targets, but as yet is not close to another deal. Says Grant, "The industry remains extremely fragmented with a number of mom and pop operations still around."

The beauty of the auction business is that it is easily scaleable and typically the bigger the auction, the bigger the profit margin.

At the same time, a \$5-million auction takes the same amount of costs and resources as a \$200-million auction. One of Hodgins' first auctions in 2008 netted the company \$146,000 in revenue, but had it been armed with a pool of capital, the same auction on a bought-deal basis, would have netted the company a stunning \$400,000 in revenue.

Hodgins, however, expects a secondary offering will be completed in the next six

months to enable it to compete in the top tier of auctions.

The Internet Beckons

What might seem to be a competitive disadvantage against the main auction houses, the lack of expensive auction arenas is turning out to be an advantage for Hodgins. The rising cost of fuel is making it less and less financially feasible to haul huge agricultural and industrial equipment to these central auction sites. "We are experts in the marketing and promotion of events, and we know equipment," says Hodgins. "The industry leaders are currently wedded to their \$20-million bricks and mortar auction amphitheatres while there is nothing to stop us from selling a piece of equipment complete with photo galleries and mechanical inspections on an Internet auction site."

That's a business niche that today is only occupied by online selling firms such as eBay. "The difference between us and eBay is they don't do the promotion that we do to make it an auction event," Hodgins says. "We know where the buyers are, and we are equipment experts." **Hodgins has only just begun online-only industrial auctions and predicts "huge" growth potential.**

Hodgins Eyes \$80-Billion Market

Hodgins is now developing technology to allow wireless bidders to participate in online auctions that will make auctions nearly instantaneous and could make the company a major player in the \$80-billion market for wholesale auto auctions. The firm envisions an auto dealer taking a trade-in on an unfamiliar vehicle he doesn't want parked on his lot. Rather than taking a chance on price, the dealer could put the vehicle up in a 30-minute auction and receive the best-possible price from other car dealers bidding on the vehicle in question.

"We also think it could have future applications in the agricultural and industrial world," says the auctioneer's General Manager. "There comes a time when all of us as sellers want to sell something right away. I want it gone by the end of the day." **Hodgins says it has developed the "blueprint" for the real-time auction and has people in place experienced in the technology to go ahead.**

Good in Good Times and Bad

The past few years have been very good to Hodgins, thanks in part to the province of Saskatchewan enjoying an agriculture boom, and its sudden emergence as an energy producer. "This business can do

well under any circumstances," says the firm's second-generation owner. "The present boom is a help from the point of view that people who want to exit the farming business want to do so on a good note." Farm and farm machinery prices are at all-time highs thanks to strong crop prices, which has prompted many in Saskatchewan's agriculture sector to sell out. **Conversely, in Hodgins' core areas of agriculture, construction equipment and industrial plant auctions it can be extremely busy during economic downturns. "We seem to win both ways."**

Coming Off a Very Strong Year

Hodgins enjoyed its best year ever in 2007 with system sales in excess of \$50-million, revenue of nearly \$4.3-million (27% ahead of the prior year) and earnings of 4 cents per share. The firm says sales and revenue trends for 2008 look to be on track to produce an "average year" while new staff hires, marketing and R&D spending may crimp the bottom line. "Our profit may not be as good as we like this year but our topline is at least going to be average," says Hodgins. Over the past year, Hodgins' shares have traded between 11 cents and 42 cents per share.

Ownership Stability a Plus

Just over one half of the company is owned by management: split between Hodgins, a former MLA in Saskatchewan and a 30-year auctioneer and appraiser who has conducted more than 3,000 auctions, and the firm's President, Barry Jung, who boasts two decades of experience in the industry both as an auctioneer and as an appraiser. ■

Hodgins Auctioneers Inc. trades on the TSX-V under the symbol (HA). At the time of this writing, the company's shares were trading at \$0.15. For further information on Hodgins Auctioneers Inc. contact the company by email at info@hodginsauctioneers.com or by phone at 306-752-2075. Hodgins Auctioneers website is www.hodginsauctioneers.com.

Note: This article contains forward looking statements about material factors that may impact the future success of Hodgins Auctioneers Inc. Although Hodgins Auctioneers Inc. believes a reasonable basis exists for making the statements set out in this article, future results may differ from those contemplated, nor can it be guaranteed that Hodgins can raise the capital required to implement its acquisitions program. Accordingly, no assurances can be given that described events will transpire. Carry out your own due diligence before investing in any publicly traded company.

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UPDATE.....

Gossan on track to become Canada's only magnesium producer

Featured in the February 2008 issue of **The Hume Report**, Gossan Resources Limited (GSS: TSX-V) is pleased to provide the following update:

Gossan's Inwood magnesium project north of Winnipeg remains on course to become Canada's sole magnesium producer. Magnesium prices have doubled in the last year and a half, and Gossan holds an NI 43-101 resource of 28.8 million tonnes of high purity magnesium dolomite. Inwood could sustain an 80,000 tonne per year operation for some 30 years — a world-class operation. Hatch has been retained to provide engineering process support towards the initial application of construction and environmental approvals.

More advantages for Inwood: (1) Gossan holds a 100% exclusive interest in the Zuliani magnesium production process, which improves recoveries while reducing energy and raw materials requirements. Thermodynamic modelling has been successfully completed and bench scale tests at CANMET Laboratories should be completed by year-end. (2) Gossan will also benefit from extremely competitive

hydro electricity rates in Manitoba — an enormous financial advantage for a smelting plant.

A big push continues at the Bird River platinum-palladium-base metals project in southeastern Manitoba, adjacent to Mustang Minerals' Maskwa deposit. Marathon PGM has spent over \$3 million at the project, which along with cash payments of \$400,000 to Gossan, has triggered a 50/50 joint venture. During the winter, Marathon drilled 38 holes at Bird River. Results from Page Block confirmed historic results and expanded the mineralization, including intersections up to 180 metres that could be mined via open pit. At Ore Fault, two zones of mineralization were discovered: nickel-copper-platinum and VMS-style zinc-silver-copper. A NI 43-101 resource estimate for Page Block and Ore Fault is due prior to year-end.

A 26-hole sonic drill program was completed in May 2008 at Gossan's Manigotagan silica property. Sample recovery was excellent, and additional tests are underway to confirm use of the silica as frac sand for the oil and gas industry (to be blown down oil and gas wells to facilitate flow). If all goes as expected, Gossan will undertake a scoping study with an emphasis on marketing.

Negotiations for the sale and development of Gossan's Pipestone vanadium-titanium-iron property in Manitoba continue. In July 2008, Gossan's partner, the Cross Lake First Nation, held a two-day mining symposium. ■

The Financial Forum & Wealth Management Expo

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Contact Sara Lear at 416-918-4992 or 416-644-0041 or email Sara@hume-media.com

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owner of the company, who is also a former provincial politician, says his company will soon vault into the auctioneering big leagues with a planned secondary offering. The money raised will allow Hodgins to compete for those national-level auctions it just doesn't have the scale to mount currently. Hodgins would also like a bit of a war chest to fund further acquisitions in the auction business.

The Internet Works in Melfort!

Finally, Hodgins is uniquely poised to change the rules of the commercial auctioneering business by taking it to the Internet. **The company doesn't have tens of millions sunk in grand auction arenas like the big guys in the industrial auction industry, but it is well positioned to be the first to shift a big part of its business online.** It just makes sense and makes for a far more efficient auction process when buyers can bid online for that \$300,000 piece of construction or farming equipment. This can be done online in minutes, and it is far more efficient—not to mention *more* fuel efficient—than having to travel to live auctions that may be taking place thousands of miles away.

Where the company is based is as inconsequential to investors as where Google makes its home, in Mountain View, California, and of course I'm sure you all know where that is! ■

UPDATE.....

Rocky Mountain Resources

This company becomes a development story in phosphate as well as vanadium: both commodities trading at or near record high prices. The Hume Report is pleased to provide the following update:

First featured in the August 2008 issue of **The Hume Report**, Rocky Mountain Resources (RKY: TSX-V) is a mineral development company focused on two of the hottest global commodities: phosphate, an essential component of fertilizer manufacture in high demand to supply the international agricultural boom, and vanadium, a high demand metal used to strengthen steel. Both are trading at or near historic high prices.

With Rocky's freshly-minted September 2008 acquisition of the extensive and strategic Paris Hills vanadium-phosphate project in Idaho, the preponderance of the company's value is now firmly in phosphate. Paris Hills was mined in the 1910s and 1920s and hosts historic phosphate and vanadium resources of world-class size. The project was extensively explored in the 1970s. Reports from that era projected a total resource of 304 million tons of phosphate rock averaging 26.8% and 44 million tons of mineralization containing vanadium. Rocky has begun a review of the historical data, will drill

up to 12 confirmatory holes totalling 7,000 feet, and is updating the geological model and database — all with the objective of issuing an NI 43-101 resource estimate before the end of 2008.

Rocky's Gibellini vanadium project in Nevada hosts an NI 43-101 vanadium resource of some 21 million tons (Indicated and Inferred). New drilling in the adjacent Rich Hill deposit shows a potential addition to the resource, with one drillhole intersecting an impressive grade of 0.776% vanadium oxide over 66 feet. Importantly for Gibellini's development, most of the vanadium mineralization is shallow and above groundwater, which means simple open pit mining techniques could be used. The really unique feature of the Gibellini deposit is that it can be processed by heap leaching. This plus the capacity for open-pit mining will lead to low-cost production. A scoping study on the Gibellini project is due to be issued very shortly.

Says Rocky President, Tom DeMull, “These days phosphate is king, and we're fortunate that our vanadium offers a way to generate cash to fund the larger phosphate project. **Paris Hills is a world-class opportunity for Rocky, and we are certainly moving aggressively towards development.** Both Paris Hills and Gibellini are strong bets to be future U.S. producers of long-term demand metals.” ■

Cool headed investors have a unique opportunity to make extraordinary profits from today's market meltdown

There is only one way to make a profit trading in stocks. Buy low and sell high: it's as simple as that. The only problem is how to determine the “low point” when to buy and the “high point” when to sell. Of the two, it is far more difficult to determine the market high than to determine when it is time to sell.

This problem with determining the “sell point” occurs because after every market meltdown in history, share prices have risen slowly and steadily over a period of several years. Only minor fluctuations occur on the upward

trend, until new highs have been reached. Because the upward trend is long and steady, it is very difficult to pick the exact “high point” or time to sell.

On the other hand, the “low point” or the time “to buy” is very easy to identify. When markets make a major correction, the action is “nasty, brutish and short.” And, the pendulum usually swings too far as investors rush to unload stocks on the way down. This results in deep discount prices for the shares of many quality companies.

Warren Buffet, the world's most respected and successful investor didn't build his fortune by following the herd. And, over the past few weeks, with markets in virtual free fall, Mr. Buffet has acquired major positions in Goldman Sachs and General Electric.

Is there a lesson here for you? ■

Barbara Brown
Managing Editor, **The Hume Report**