

Hodgins Auctioneers Inc. (TSX.V: HA) – Q2 Exceeds Expectations as a Result of Business Diversification and Increased Online Businesses

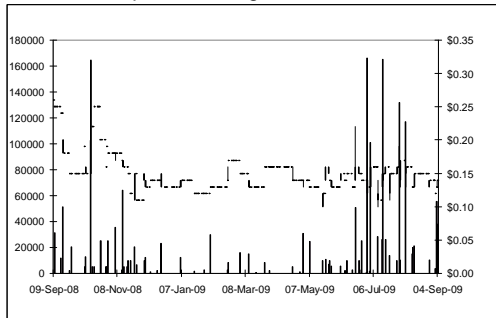
Sector/Industry: Commercial Auction Services

<http://www.hodginsauctioneers.com/>

Market Data (as of September 8, 2009)

Current Price	\$0.14
Fair Value	\$0.32 (↑)
Rating*	BUY
Risk*	3 (Average)
52 Week Range	\$0.10 - \$0.32
Shares O/S	8.60 mm
Market Cap	\$1.20 mm
Current Yield	N/A
P/E	N/A
P/B	1.63
YoY Return	-46.2%
YoY TSX-V	-32.2%

*see back of report for rating and risk definitions



Highlights

- In Q2 2009, the company reported revenues of \$1.93 million versus \$2.12 million in Q2 2008. For the first 6 months of 2009, Hodgins reported revenues of \$2.12 million versus \$2.24 million in the same period in 2008.
- Hodgins has implemented growth strategies of diversification and increasing its online business. According to management, the company conducted 2 large industrial and construction equipment auctions in Q2 2009, with gross sales of about \$2 million each, and an average commission rate of 16% (compared to an average commission of about 8% the company typically generates). The company's commission revenues from online auctions also increased significantly during Q2 2009.
- We think both the industrial and increased online auctions have had a positive impact on the company's margins. Gross margins improved to 78.0% in Q2 2009, from 75.4% in Q2 2008, and to 65.0% for the first 6 months of 2009, from 60.3% in the same period in 2008. In addition, reduced direct costs from improving operational efficiencies also contributed to the improvement.
- All other margins in Q2, and the first 6 months of 2009, also improved over those from comparable periods in 2008, and exceeded our expectations. The company was successful in reducing its YTD G&A expenses.
- As a result, the company posted higher net income of \$0.92 million (EPS: \$0.11), compared to 0.83 million (EPS: \$0.10) in Q2 2008. For the first 6 months of 2009, the company posted net income of \$0.45 million (EPS: \$0.05), compared to 0.22 million (EPS: \$0.02) in the same period in 2008. We have raised our EPS outlook for both 2009 and 2010.
- We maintain our BUY rating and raise our fair value estimate from \$0.25 per share to \$0.32 per share.

Key Financial Data (FYE - Dec 31)

(Million C\$)	2003	2004	2005	2006	2007	2008	2009E	2010E
Revenue	2.386	3.531	3.611	3.343	4.257	3.399	3.042	3.454
Net Income	(0.006)	0.198	0.040	(0.186)	0.487	(0.384)	(0.134)	0.007
EPS	n/a	0.040	0.005	(0.020)	0.040	(0.050)	(0.016)	0.001
Cash	0.256	0.379	0.469	0.107	0.001	0.247	0.030	(0.032)
Working Capital	(0.691)	(0.008)	0.002	(0.185)	0.216	(0.163)	(0.431)	(0.628)
Total Assets	0.913	1.082	1.416	0.962	1.328	1.422	1.429	1.484
Debts/Assets	83.9%	38.4%	31.0%	41.7%	32.8%	47.1%	47.2%	34.3%

Hodgins Auctioneers Inc. is a Melfort, Saskatchewan based auctioneer, providing auction services of agricultural, and industrial equipment and real estate. The company conducts live onsite auctions primarily in Western Canada, and also has an online only auction platform. To achieve a successful auction, Hodgins offers a range of services such as marketing campaigns, financial guarantees, outright purchases, live internet bidding, and various support services.

Industry Update

The agriculture industry has slowed down for the first 6 months of 2009. This was as expected, and the following table shows that farm receipts for Saskatchewan, the company's primary operating area, have declined 2% YTD. At the end of August 2009, crop prices have also declined considerably compared to those at the beginning of 2009. The slowdown has negatively affected agricultural related auction activities in Western Canada. In particular, Hodgins conducted considerably fewer auctions in the first half of 2009. However, we are pleased to see that the company was able to improve margins and financial results during the period by its business diversification strategy and cost reduction measures as discussed later in this report.

Provincial farm cash receipts (\$ millions)	January to June 2008	January to June 2009	change (%)
Canada	22,593	22,285	-1.4
Newfoundland and Labrador	59	55	-6.8
Prince Edward Island	189	219	15.9
Nova Scotia	235	225	-4.3
New Brunswick	232	257	10.8
Quebec	3,437	3,597	4.7
Ontario	4,724	4,519	-4.3
Manitoba	2,459	2,477	0.7
Saskatchewan	4,853	4,758	-2
Alberta	5,196	5,012	-3.5
British Columbia	1,211	1,165	-3.8

Source: Statistics Canada

For the balance of 2009, we think the agriculture industry and consequently, auction activities of farmland and farm equipment, will improve in association with an expected economic recovery. However, we think the improvement will be marginal and Hodgins will still record a decline in auction activities for the rest of 2009, from those seen in the same period of 2008. Note that despite lower activities (measured by revenues), we have raised our EPS forecast for 2009, due to the improvements as a result the company's strategy discussed below. In 2010, we think the company will be able to increase its activities considerably as the Canadian economy resumes growth (GDP growth of 1.6% according to the IMF). We also expect Saskatchewan's economy to perform considerably better than most other provinces in Canada due to its tax reductions and infrastructure investment by its provincial government, as well as continued inter-provincial migration. This will lead to an increase in demand for Saskatchewan's key export products such as crops, potash, uranium and oil

Focused on Diversification and Increase in Online Business

Based on our discussion with management, Hodgins has implemented growth strategies of diversification and increasing its online business. A simple look at the company's list of upcoming auctions would confirm this strategy. In September, the company has scheduled to host an Online Collector Car Auction as well as a National Online Real Estate Auction. Both these auctions utilize the online platform for items that are not traditionally auctioned by the company. In Q2 2009, the company has carried out the following activities consistent with its strategy, which we believe had a positive impact for its Q2 and YTD performance:

Industrial and Construction Equipment Auctions: In addition to providing auction services to farmland and farmland equipment, the company continues to expand into the

auctioning of industrial and construction equipment. During Q2 2009, Hodgins held a large heavy construction and forestry equipment auction in Ear Falls, Ontario. The auction covered a large selection of construction and forestry equipment such as heavy trucks and trailers from the close-out of a northern Ontario construction contracting company. This auction attracted 517 registered live and online bidders from Ontario, Quebec, Manitoba, Saskatchewan, Alberta, Michigan, Minnesota and Wisconsin. The company posted very large gross sales in excess of \$2 million from this auction, compared to the average gross sales of \$0.41 million per auction for the company's 96 auctions held in 2008. This has shown that industrial and construction equipment auctions are usually much larger in size compared to agriculture related auctions.

Management also informed us the company held another large industrial auction in Regina during Q2 2009, with gross sales of close to \$2 million. The two industrial and construction auctions generated a much higher commission rate averaging 16%, compared to an average commission rate in the level of 8% for the company's traditional farmland and farmland equipment auctions.

Significant Increase in Online Auctions: As shown in the table below (data provided to us by management), the company posted significantly higher gross sales and commission revenues from online auctions in Q2 2009, compared to those in Q2 2008. The average commission rate also increased from 7.8% in Q2 2008, to 9.1% in Q2 2009.

Online Auctions	Q2 2009	Q2 2008
Gross Sales	2,269,759	930,611
Commission	206,876	72,971
Commission (%)	9.1%	7.8%
# of auctions	5	3

At this time, we are very pleased to see the company's successful efforts to diversify its businesses further and increase its online presence for the following reasons. First, as explained in our initiating report, gross margins of industrial and construction equipment auctions and online auctions are higher than agriculture related auctions. We think this has had a very positive impact on the company's Q2 and YTD performance as the company's margins have seen notable improvement (discussed in detail below). Second, this weathers the company in the current downturn in the agriculture industry.

**Revenues
Slightly Below
Expectations**

The company reported revenues \$1.93 million (\$1.90 million from commission revenues) in Q2 2009, compared to \$2.12 million (\$2.07 million from commission revenues) in Q2 2008. For the first 6 months of 2009, Hodgins reported revenues \$2.12 million (\$2.08 million from commission revenues), compared to \$2.24 million (\$2.17 million from commission revenues) in the same period in 2008.

Lower quarterly and YTD revenues were primarily due to the lower number of auctions in light of the expected downturn in the agriculture industry in 2009. Gross auction sales reduced to \$18.85 million (from 38 auctions) in Q2 2009, versus \$25.38 million (from 64 auctions) in Q2 2008. For the first 6 months of 2009, gross auction sales were \$20.84 million (from 46 auctions), down from \$27.85 million (from 70 auctions) in the same

period in 2008. However, despite the lower number of auctions, the company held larger auctions in 2009 (average gross sales per auction of \$0.50 million in Q2 2009 versus \$0.40 million in Q2 2008, and average gross sales of \$0.45 million per auction for the first 6 months of 2009 versus \$0.40 million in the same period in 2008). We think the very large size of the industrial and construction equipment auctions, and the larger size in the company's online auctions held in Q2 2009, had a positive impact in increasing the average size of auctions. In addition, Hodgins reported higher average commission rates (commission revenues as a percentage of gross auction sales) of 10.1% in Q2 2009, versus 8.1% in Q2 2008, and 10.0% for the first 6 months of 2009, versus 7.8% in the same period of 2008.

Overall, based on YTD performance and our industry outlook for the rest of 2009, we have lowered our commission revenue forecast from \$3.03 million to \$2.93 million, and total revenues from \$3.15 million to \$3.04 million. Note that although we lowered revenues in light of the economic downturn, we think the company will improve its profitability in 2009, compared to 2008, and our previous estimates, primarily as a result of its efforts to diversify and increasing its online businesses. In 2010, in anticipation of a considerable improvement in economic conditions in Saskatchewan and Canada, we expect an average year for the company and maintain our revenue forecast at \$3.45 million.

Margins Exceeded Expectations

Lower Direct Costs: Gross margins improved to 78.0% in Q2 2009, from 75.4% in Q2 2008, and to 65.0% for the first 6 months of 2009, from 60.3% in the same period in 2008. Despite lower revenues, the increase in gross margins was partly because of higher operating efficiencies in conducting auctions, which lowered direct costs. As industrial and construction equipment auctions as well as online auctions typically have higher gross margins than those from farmland and farm equipment auctions, we think the company's 2 large industrial auctions and increased online auctions during Q2 2009, also had a very positive impact on its gross margins. As a result of the improvements, we have increased our gross margins forecast from 51.9% to 54.9% in 2009. In 2010, we have maintained our forecast at 50.7% (a historical average) until we see further evidence of improvement.

Margins	2003	2004	2005	2006	2007	2008	2009E	2010E	Q2 2009	Q2 2008	6 mo 2009	6 mo 2008
Gross Margin	55.6%	51.5%	46.5%	46.3%	53.8%	50.1%	54.9%	50.7%	78.0%	75.4%	65.0%	60.3%
EBITDA Margin	4.3%	10.2%	4.7%	-0.7%	12.5%	-6.1%	3.4%	5.4%	52.7%	46.5%	28.1%	18.2%
EBIT Margins	2.8%	8.9%	2.7%	-2.8%	10.3%	-9.0%	0.5%	2.3%	51.6%	45.6%	26.0%	16.5%
EBT Margin	-0.2%	7.1%	1.8%	-5.6%	9.3%	-11.3%	-4.6%	0.3%	48.7%	44.9%	22.4%	15.3%
Net Margin	-0.2%	5.6%	1.1%	-5.6%	11.4%	-11.3%	-4.6%	0.2%	47.4%	39.2%	21.2%	9.9%

Lower G&A Expenses: The company reduced its G&A expenses to \$0.78 million for the first six months of 2009, compared to \$0.94 million for the same period in 2008, as a result of various reductions in expenses such as professional fees and wages. We have reflected this in our valuation model, and our EBITDA margin forecast has increased to 3.4% for 2009, from previous -2.0% as a result of all the improvements discussed above.

Raised EPS Forecasts

In Q2 2009, the company posted net income of \$0.92 million (EPS: \$0.11), compared to \$0.83 million (EPS: \$0.10) in Q2 2008. For the first 6 months of 2009, the company posted net income of \$0.45 million (EPS: \$0.05), compared to \$0.22 million (EPS: \$0.02) in the same period in 2008. **Given all the changes shown above, we have reduced our net loss forecast in 2009 from \$0.22 million (EPS: -\$0.03) to \$0.13 million (EPS: -\$0.02). In 2010, we raise our EPS forecast from a net loss of \$0.07 million (EPS: -\$0.01) to net income of \$0.01 million (EPS: 0.00).**

Cash Flows, Liquidity and Capital Expenditures

For the first 6 months of 2009, the company generated \$2.58 million from operations (primarily resulting from a \$2.34 million increase in accounts payables) and spent a net \$0.15 million on new equipment. The company also issued net \$0.05 million in term loans (\$0.18 in new loans net repayment of \$0.13 million). As a result of the cash inflows, the company had \$2.61 million in cash and \$0.21 million in working capital at the end of June 2009, compared to \$0.45 million in cash and -\$0.68 million in working capital at the end of March 2009. However, we expect the company to use the existing cash to significantly pay down its payables in the balance of the year. Based on a capital expenditure forecast of \$0.24 million in 2009 (unchanged from previous report), our valuation model indicates that the company's current cash will not be sufficient and it will have to raise \$0.25 million (from short term bank lines as assumed by our valuation model) for the balance of 2009.

Valuation

Given all changes discussed above, our revised DCF model gave a fair value estimate of \$0.32 per share, up from \$0.25 per share in our previous report.

Hodgins Auctioneers Inc - DCF Valuation											
(Million C\$)	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal
Net Income	(0.134)	0.007	0.092	0.172	0.253	0.333	0.385	0.439	0.496	0.555	0.616
Non Cash Charges	0.090	0.108	0.113	0.111	0.110	0.109	0.108	0.107	0.106	0.105	0.105
Funds from Operations	(0.044)	0.115	0.204	0.283	0.363	0.442	0.493	0.546	0.602	0.660	0.721
Investment in WC	(0.151)	(0.014)	(0.011)	(0.010)	(0.010)	(0.011)	(0.004)	(0.004)	(0.004)	(0.004)	(0.005)
Cash From Operations	(0.195)	0.102	0.193	0.273	0.352	0.431	0.489	0.542	0.597	0.656	0.717
Capex	0.240	0.150	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100
Free Cash Flow	(0.435)	(0.048)	0.093	0.173	0.252	0.331	0.389	0.442	0.497	0.556	0.617
PV	(0.419)	(0.042)	0.072	0.119	0.154	0.181	0.190	0.192	0.193	0.193	2.379
Discount Rate	12%										
Terminal Growth	3%										
Firm PV	3.212										
Cash (Beg. of Year)	0.247										
LT Debt (Beg. Of Year)	0.670										
PV Equity	2.790										
Shares O/S (in Millions)	8.599										
DCF Value/Share	0.32										

Conclusion & Rating

Although we believe the downturn in the Agriculture industry will negatively affect Hodgins for the balance of 2009, the company's strategy of business diversification and increasing online auctions have shown to be successful in improving margins and profitability. As the company continues to carry out this strategy, we expect the company to fare considerably better in 2009. As a result of the improvement, we maintain our BUY rating on Hodgins and increase our fair value estimate from \$0.25 per share to \$0.32 per share. We continue to rate the company a RISK of 3 (Average).

Risks

- The company operates in a highly competitive industry, which subjects the company to price competition.
- The company's expansion plan is likely to require additional capital, which is difficult to raise in current market conditions.
- The company's business is highly seasonal, and largely dependent on the spring

auction season. We note the company's business diversification and increasing presence in online auctions may offset this effect.

- The company's business is subject to the economic downturn, but the risk may be partially offset by an increase in insolvency related auctions and the company's business diversification strategy.

Appendix

Hodgins Auctioneers Inc - Income Statements (in Million C\$)

	2003	2004	2005	2006	2007	2008	2009E	2010E
Revenues								
Auction revenues	2.20	3.38	3.50	3.23	4.12	3.29	2.93	3.32
Rental income	0.10	0.10	0.10	0.08	0.11	0.06	0.07	0.09
Other income	0.09	0.05	0.01	0.03	0.02	0.05	0.05	0.04
	2.39	3.53	3.61	3.34	4.26	3.40	3.04	3.45
Direct Costs	1.06	1.71	1.93	1.79	1.97	1.70	1.37	1.70
Gross Margin	1.33	1.82	1.68	1.55	2.29	1.70	1.67	1.75
	-							
G&A	1.22	1.38	1.50	1.57	1.76	1.87	1.57	1.57
Stock Based Compensation	-	0.08	0.01	0.00	-	0.05		
EBITDA	0.10	0.36	0.17	(0.02)	0.53	(0.21)	0.10	0.19
Amortization	0.04	0.05	0.07	0.07	0.09	0.10	0.09	0.11
EBIT	0.07	0.31	0.10	(0.10)	0.44	(0.31)	0.01	0.08
Interest	0.07	0.06	0.03	0.09	0.04	0.08	0.15	0.07
EBT	(0.01)	0.25	0.07	(0.19)	0.40	(0.38)	(0.13)	0.01
Tax	-	0.05	0.03	-	(0.09)	-	-	0.00
Net Income	(0.006)	0.198	0.040	(0.186)	0.487	(0.384)	(0.134)	0.007
EPS	n/a	0.04	0.00	(0.02)	0.04	(0.05)	(0.02)	0.00

Hodgins Auctioneers Inc - Balance Sheets
(in Million C\$)

	2003	2004	2005	2006	2007	2008	2009E	2010E
ASSETS								
Cash And Equivalents	0.256	0.379	0.469	0.107	0.001	0.247	0.03	0.018
Accounts Receivable	0.152	0.037	0.233	0.128	0.326	0.108	0.123	0.175
Inventory	0.03	0.038	0.031	0.033	0.196	0.086	0.145	0.165
Prepaid Exp.	-	-	0.028	0.048	0.049	0.034	0.034	0.039
Total Current Assets	0.438	0.454	0.761	0.316	0.572	0.476	0.332	0.396
Long-Term Note Receivable						0.173	0.173	0.173
Net Property, Plant & Equipment	0.476	0.628	0.656	0.646	0.755	0.773	0.923	0.915
Total Assets	0.913	1.082	1.416	0.962	1.328	1.422	1.429	1.484
LIABILITIES								
Bank Indebtedness				0.106		0.090	0.340	0.490
Accounts Payable	0.32	0.29	0.524	0.159	0.223	0.337	0.259	0.322
Due to Shareholders	0.042	0.042	0.042	0.042	0.042	0.04	-	-
Curr. Port. of LT Debt	0.766	0.075	0.112	0.08	0.092	0.176	0.164	0.162
Curr. Income Taxes Payable	-	0.054	0.08	0.114	-	-	-	-
Total Current Liabilities	1.129	0.462	0.759	0.501	0.356	0.639	0.764	0.974
Long-Term Debt	-	0.341	0.327	0.321	0.344	0.494	0.51	0.348
Total Liabilities	1.129	0.802	1.085	0.822	0.701	1.133	1.273	1.321
Common Stock	0.0	0.215	0.234	0.234	0.234	0.234	0.234	0.234
Additional Paid In Capital	-	0.081	0.074	0.07	0.07	0.116	0.116	0.116
Retained Earnings	(0.215)	(0.017)	0.023	(0.163)	0.324	(0.06)	(0.194)	(0.187)
Total Shareholder's Equity	(0.215)	0.279	0.331	0.14	0.627	0.29	0.156	0.163
Total Liability and Equity	0.913	1.082	1.416	0.962	1.328	1.422	1.429	1.484

Hodgins Auctioneers Inc - Cash Flow Statements
 (in Million C\$)

	2003	2004	2005	2006	2007	2008	2009E	2010E
Net Income	(0.006)	0.198	0.0398	(0.186)	0.487	(0.384)	(0.134)	0.007
Depreciation & Amort.	0.037	0.048	0.073	0.071	0.091	0.097	0.09	0.108
(Gain) Loss From Sale Of Assets	-	(0.013)	(0.006)	-	-	-	-	-
Stock-Based Compensation	-	0.081	0.009	0.002	-	0.05	-	-
	0.032	0.314	0.116	(0.112)	0.578	(0.24)	(0.044)	0.115
Change in Acc. Receivable	(0.058)	0.137	(0.196)	0.105	(0.197)	0.217	(0.015)	(0.052)
Change In Inventories	0.0195	(0.007)	0.007	(0.002)	(0.164)	0.11	(0.059)	(0.02)
Change in Acc. Payable	(0.431)	(0.066)	0.254	(0.365)	0.063	0.114	(0.077)	0.062
Change in Inc. Taxes	-	0.054	0.026	0.034	(0.114)	-	-	-
Change in Other Net Operating Assets	-	-	(0.028)	(0.02)	(0.001)	0.015	(0.0)	(0.005)
Cash from Operations	(0.437)	0.433	0.179	(0.36)	0.165	0.216	(0.195)	0.102
Capital Expenditure	(0.006)	(0.21)	(0.121)	(0.062)	(0.21)	(0.168)	(0.24)	(0.15)
Property, Plant, and Equipment	-	0.023	0.026	-	0.01	0.052	-	-
Increase in Note Receivable	-	-	-	-	-	(0.173)	-	-
Cash from Investing	(0.006)	(0.187)	(0.095)	(0.062)	(0.2)	(0.289)	(0.24)	(0.15)
Debt Issued	0.8	-	0.084	0.031	0.123	0.386	0.18	-
Debt Repaid	(0.49)	(0.351)	(0.061)	(0.069)	(0.088)	(0.152)	(0.176)	(0.164)
Bank Indebtness	-	-	-	-	-	-	0.25	0.15
Issuance of Common Stock	-	0.229	-	-	-	-	-	-
Repurchase of Common Stock	-	-	(0.017)	(0.007)	-	-	-	-
Other	-	-	-	-	-	(0.005)	(0.036)	-
Cash from Financing	0.31	(0.122)	0.006	(0.045)	0.035	0.228	0.218	(0.01)
Change in Cash	(0.133)	0.124	0.089	(0.467)	0.0	0.156	(0.217)	(0.063)

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

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees of less than \$30,000 have been paid by HA to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, HA has agreed to a minimum coverage term including four updates. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investors. Full rankings and are available at www.investars.com.

The distribution of FRC's ratings are as follows: BUY (69%), HOLD (13%), SELL (3%), SUSPEND (15%).

To subscribe for real-time access to research, visit <http://www.researchfrc.com/subscription.htm> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

Fundamental Research Corp is registered with the British Columbia Securities Commission as a Securities Adviser which is not in any way an endorsement from the BCSC. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.