

# Fundamental

## Research Corp.

Investment Analysis for Intelligent Investors

September 17, 2017

### Berkwood Resources Ltd. (TSXV: BKR / OTC: CZSVF / FSE: BR2N) – Drilling Land Bordering Mason Graphite - Introductory Note

Sector/Industry: Junior Resource / Technology

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

#### Market Data (as of September 17, 2017)

Current Price	C\$0.34
Fair Value	N/A
Rating*	N/A
Risk*	5 (Highly Spec)
52 Week Range	C\$0.27 - C\$1.03
Shares O/S	19,568,896
Market Cap	C\$6.65 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.4x
YoY Return	-66.7%
YoY TSXV	-3.1%

\*see back of report for rating and risk definitions.

\* All figures in C\$ unless otherwise specified.



#### Investment Highlights

- Berkwood Resources (“company”, “Berkwood”) holds a portfolio of three exploration stage assets within Quebec targeting graphite, cobalt and lithium - the key commodities required for Lithium-Ion Batteries (“LIB”).
- The flagship project is the Lac Gueret Extensions project, which borders Mason Graphite’s (TSXV: LLG) Lac Guéret project - one of Canada’s best known & largest graphite deposits, which has plans to go into production in 2018.
- Geophysical and electromagnetic surveys have already identified six zones on the Lac Gueret Extensions project, of which, two are highly prospective for graphite. Three grab samples returned high grades of 36.3%, 14.4%, and 1.04% Cg.
- Berkwood’s land package is estimated to have a similar geology as Mason’s Lac Gueret project.
- **The company commenced a drill program last month. All of the 10 holes drilled to date intersected visual graphite, including significant intercepts. An additional six holes are planned.**
- Berkwood entered into an agreement to acquire the Cobalt Ford property in June 2017, and the Delbreuil Lithium project in July 2017. Both projects are in Quebec.

#### Risks

- The current projects within the portfolio are in early stages of exploration.
- None of the projects have NI43-101 compliant resource estimates.
- Exploration and development risks.
- Volatility in commodity prices.
- Access to capital and share dilution.

#### Key Financial Data (FYE - Feb 28)

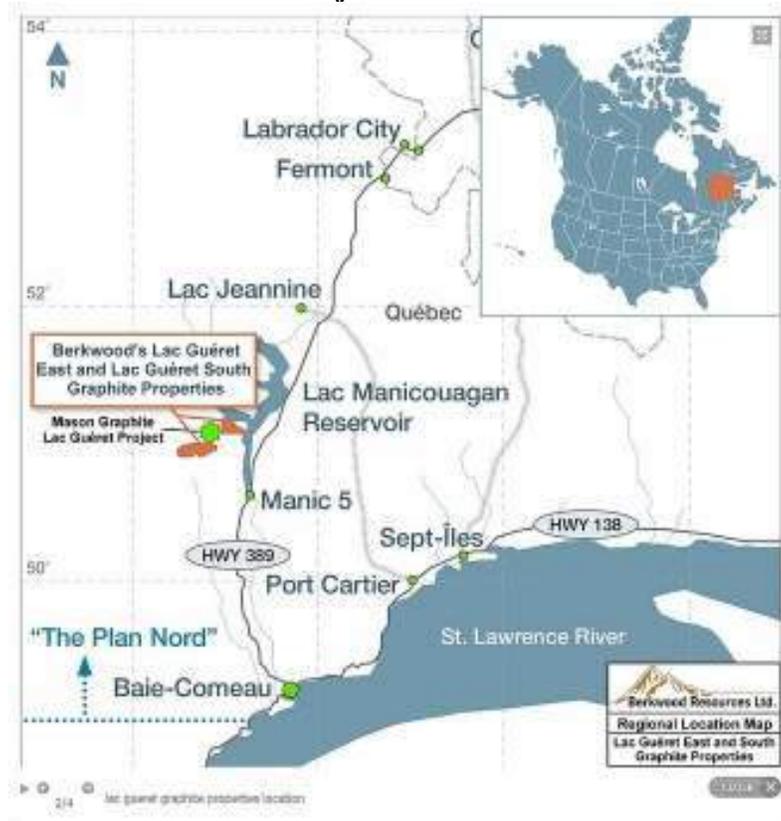
(C\$)	2016	2017 (3M)
Cash	\$532,703	\$845,072
Working Capital	\$168,985	\$893,749
Mineral Assets	\$88,838	\$88,838
Total Assets	\$692,501	\$1,492,424
Net Income (Loss)	-\$1,199,432	-\$269,641
EPS	-\$0.20	-\$0.04

**Lac Guéret Extensions**

**Location**

The Lac Guéret Extensions project is located in northeastern Quebec, approximately 290 km from the city of Baie-Comeau.

**Project Location**



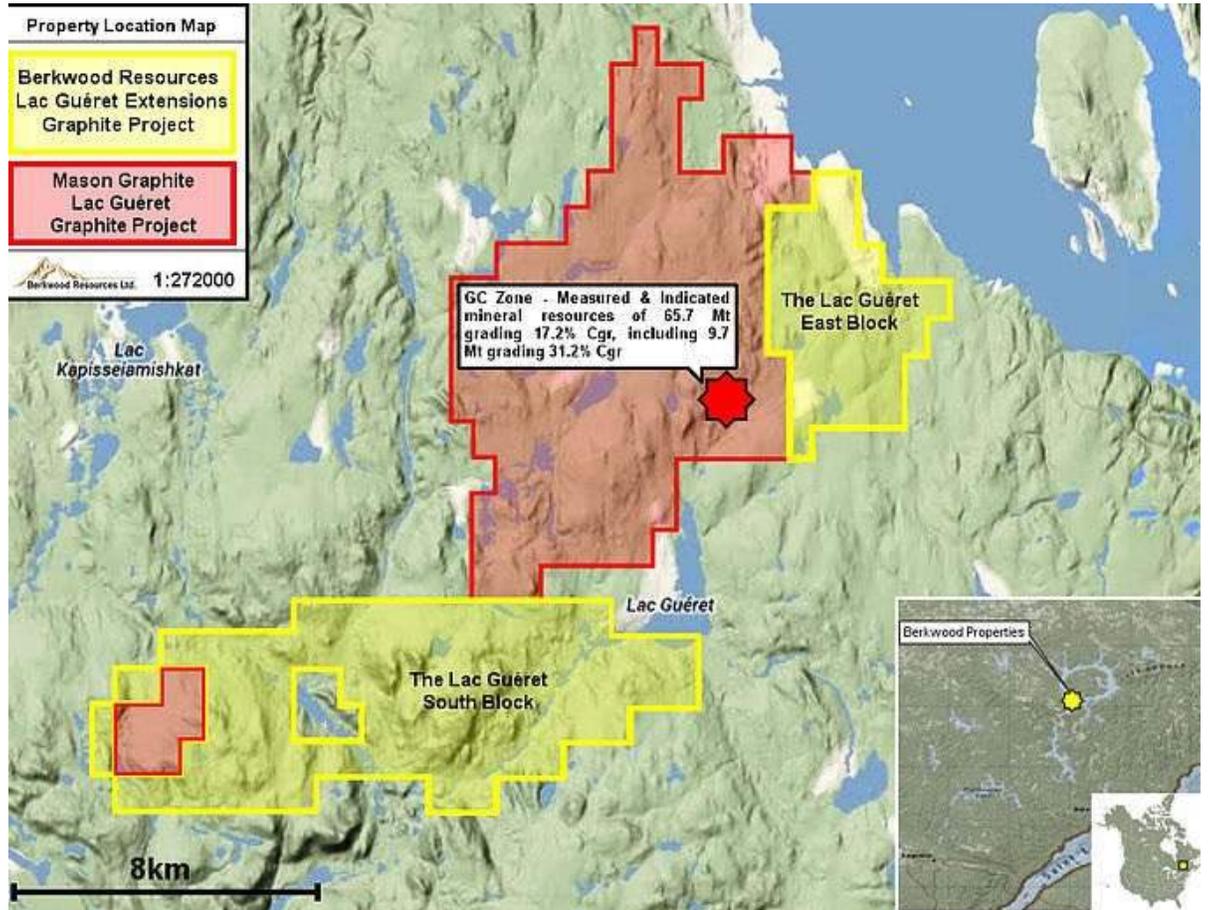
Source: Company

The property is accessed via a secondary road, and several tertiary and forest roads. It is located 50 km from HWY 389.

Berkwood entered into option agreements to acquire the Lac Guéret East property in 2012 and the Lac Guéret South property in 2014. The company has made all the payments and currently owns 100% of both the Lac Guéret East and the Lac Guéret South properties. Lac Guéret East covers 38 claims totaling 2,052 ha, and Lac Guéret South covers 106 claims totaling 5,714 ha.

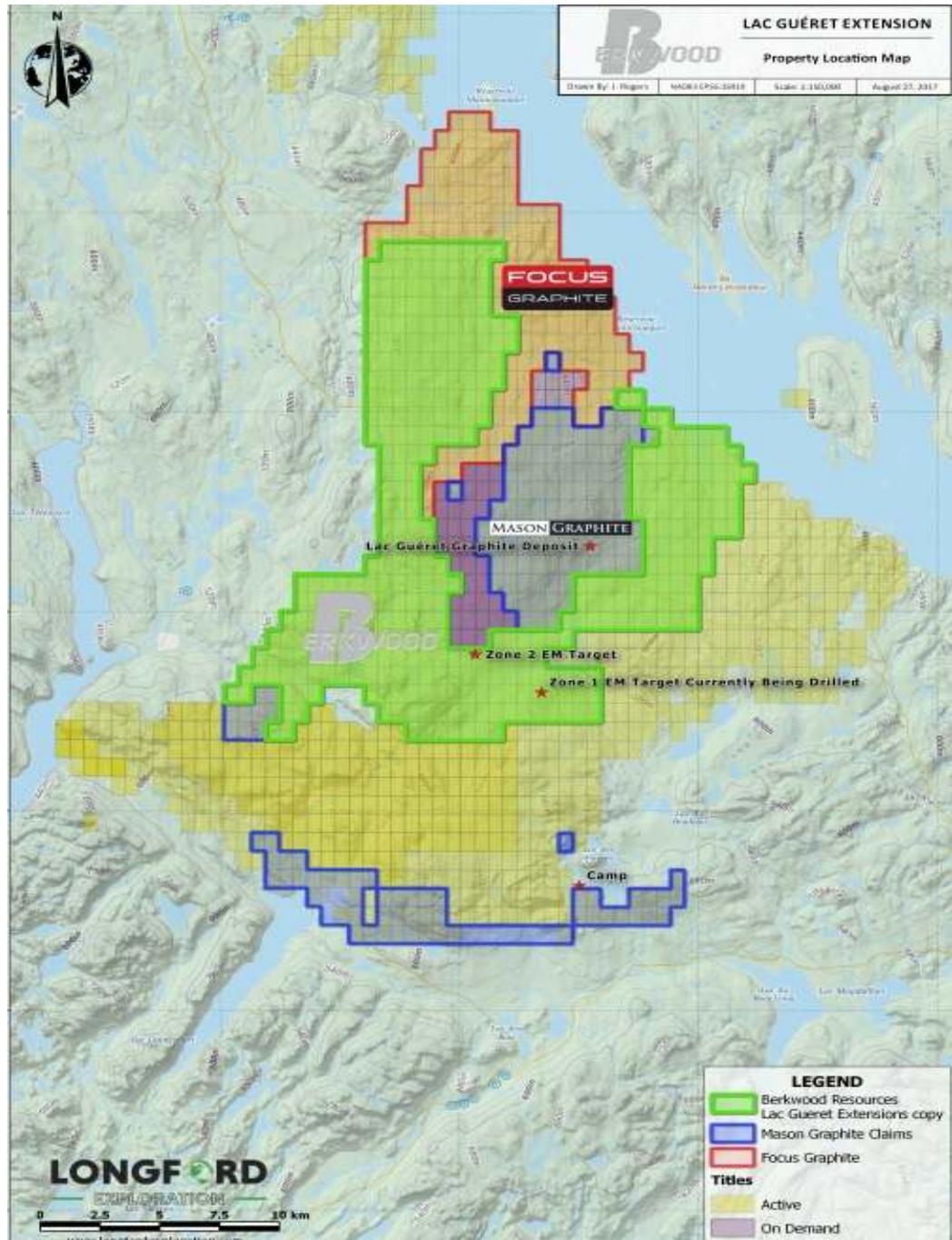
As shown in the map, Lac Guéret East and Lac Guéret South directly border (towards the east and south) Mason Graphite’s Lac Guéret Project, which is one of Canada’s largest graphite deposits.

**Berkwood’s claims prior to the recent acquisition**



Source: Company

Encouraged by a highly positive Phase 1 drill program (discussed later in this report), on September 6, 2017, the company announced that it acquired additional claims to increase its total land package in the region to 368 claims covering 19,884 ha. The new claims were acquired from individual prospectors. **The following map shows Berkwood’s current land package.**



Source: Company

The following table shows a few of the well-known advanced stage graphite projects in the world. As shown, Mason’s Lac Geuret is estimated to be the highest grade deposit (17.2% Cg). Lac Geuret is also the largest deposit in Canada with in-situ measured and indicated resources of 11.3 Mt and inferred resources of 3 Mt.

Company	Location	Stage	Enterprise Value (\$, M)	M & I (Mt)	Inferred (Mt)	Grade	EV / Resource
1 Mason Graphite	Quebec	Feasibility	\$193.50	11.29	3.04	17.20%	\$15.11
2 Focus Graphite	Quebec	Feasibility	\$17.00	1.77	0.37	14.88%	\$8.69
3 Syrah Resources	Mozambique	Feasibility	\$476.06	28.50	100.00	11.00%	\$6.06
4 Leading Edge Materials	Sweden	Production Ready	\$58.53	0.72	0.16	9.14%	\$73.45
5 Graphite One	Alaska	PEA	\$13.60	0.74	4.97	7.00%	\$4.22
6 NextSource Materials	Madagascar	Feasibility	\$28.35	6.29	2.37	6.13%	\$3.79
7 Magnis Resources	Tanzania	Feasibility	\$259.26	6.48	2.86	5.40%	\$32.78
8 Nouveau Monde Mining	Quebec	PEA	\$23.36	2.46	0.71	4.10%	\$8.30
9 Zenyatta Ventures	Ontario	Resource	\$62.40	0.97	0.45	3.40%	\$52.41
10 Alabama Graphite	US	PEA	\$16.07	1.88	2.03	2.50%	\$5.55
11 Northern Graphite	Ontario	Feasibility	\$14.17	1.21	0.40	1.70%	\$10.05
Average			\$105.66	5.66	10.67	7.50%	\$20.04

*Source: Various Companies*

A feasibility study completed on Lac Gueret in 2015 showed robust economics with an after-tax Net Present Value at 8% of \$352 million. The following table shows a summary of the feasibility study results.

Feasibility Study Results (Mason's Lac Gueret)	
Mine Life	25 years
Total Production	4.7 Mt of ore at 27.8% Cg
Strip Ratio	0.8: 1 (waste to ore)
CAPEX	\$166 million
After-tax Payback	2.6 years
Annual Production	51,900 tonnes of graphite concentrate
Production Cost	\$376 per t of graphite concentrate
After-tax NPV @ 8%	\$352 million

*Source: Mason Graphite*

Berkwood's initial focus is on the south block, which has a similar prospective geology as

Mason’s Lac Gueret. The south block also surrounds Mason’s Capitaine Cosmos property, which has returned up to 34.1% Cgr and 0.8 g/t Au over 1 m.

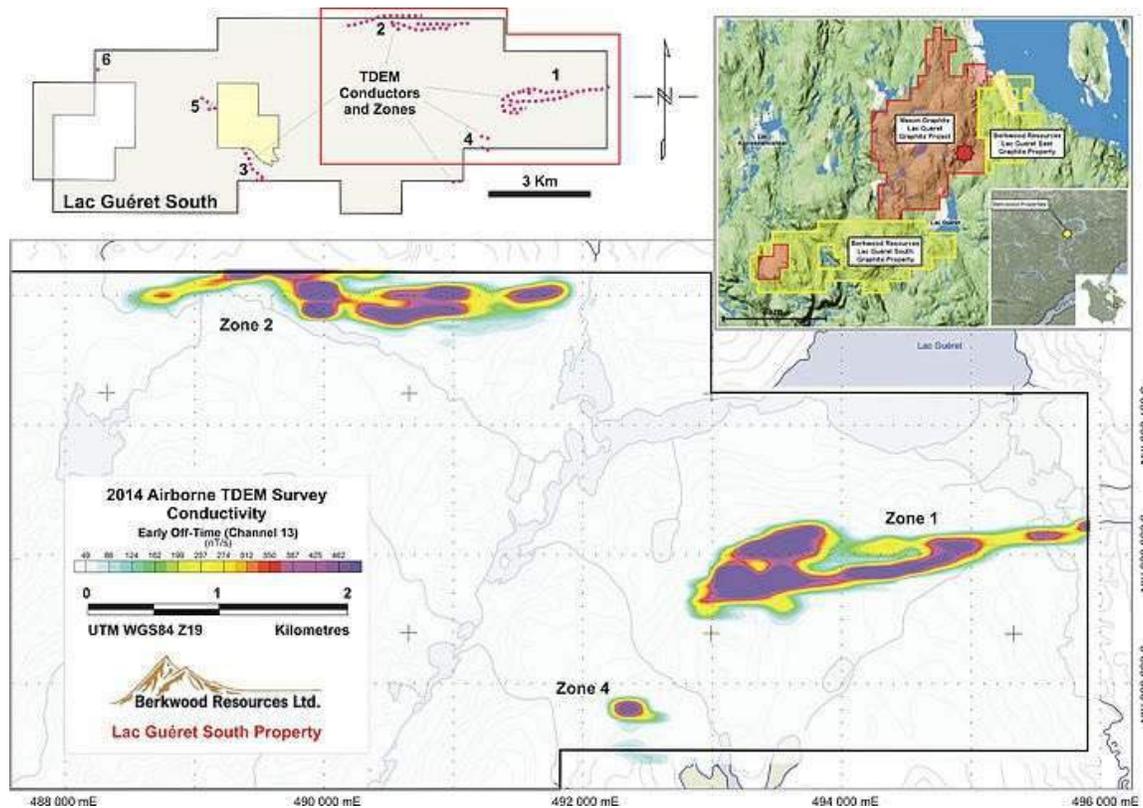
**History**

Berkwood originally entered into an option agreement in May 2012 to acquire the Lac Gueret East property. The property is subject to a 2% NSR, of which, 1% can be purchased for \$1 million.

The company entered into an option to acquire the Lac Gueret South property in July 2014. This property is also subject to a 2% NSR, of which, 1% can be purchased for \$1 million.

In 2014, Berkwood conducted a helicopter-borne magnetic (MAG) and time-domain electromagnetic (TDEM) survey over the south block. The survey identified 101 electromagnetic (EM) anomalies across six key zones. **Zones 1 and 2 returned the largest anomalies and are considered to be the most prospective.** Note that zone 2 cuts through Mason’s land package.

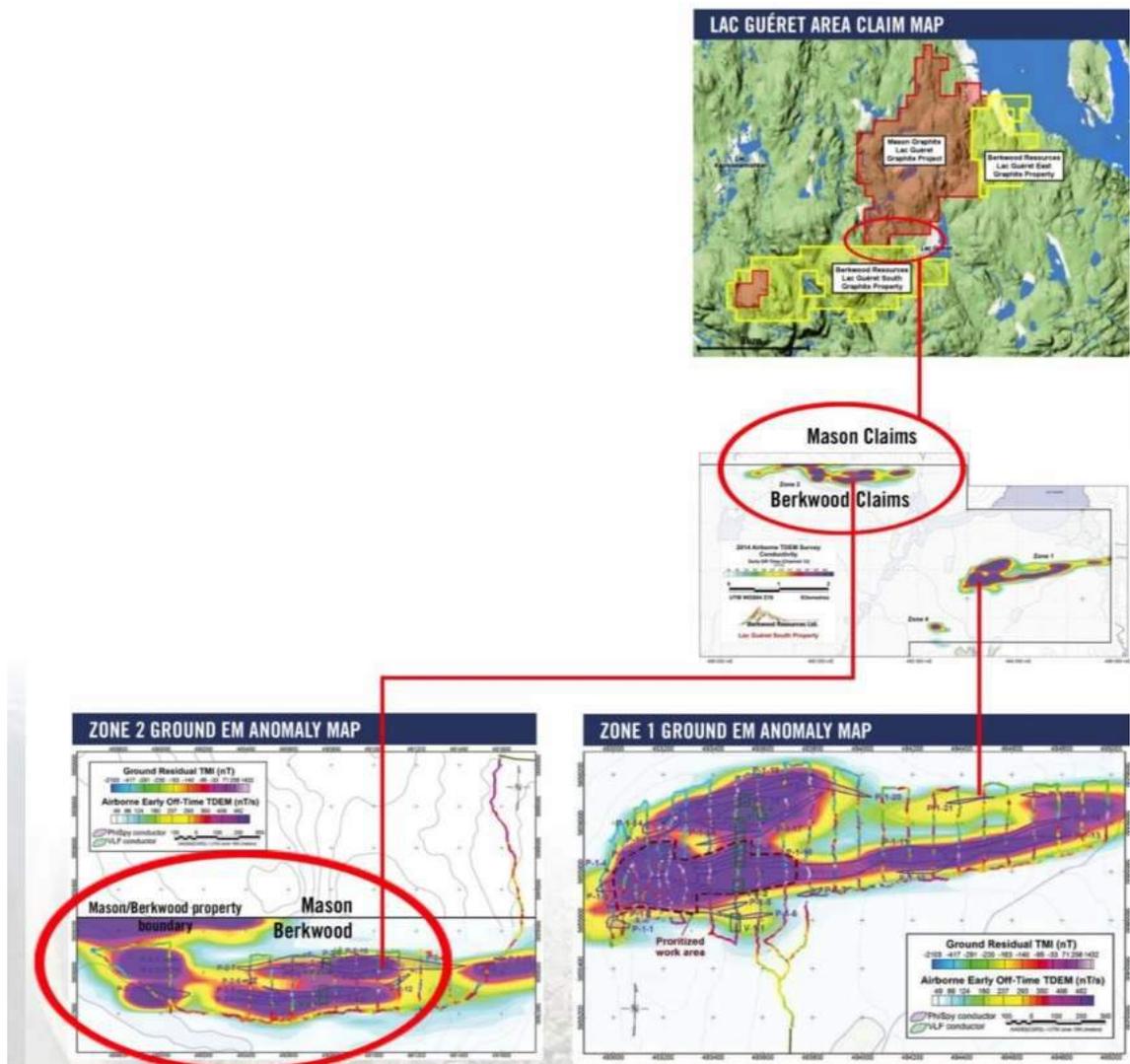
**Location of the Six Identified Zones**



Source: Company

In January 2016, Berkwood completed a follow up ground EM survey on Zones 1 and 2. These surveys indicated the following:

- Zone 1 is estimated to be approximately 2,000 m long, and 50 to 600m wide.** The western end of the zone is considered to be 800 m long and up to 300 m wide. Of the 11 grab samples collected, three contained 36.3%, 14.4%, and 1.04% Cg. We believe these high grades, and the large geophysical anomalies, indicate that the zone has potential to be of substantial size.
- Zone 2 lies along strike of the zones identified at Mason’s Lac Gueret. **This zone is considered to be approximately 1,000 m long and 60 m wide.**



Source: Company

### Current Drill Program

On September 6, 2017, the company announced the completion of 10 holes totaling 1,360 m. All 10 holes intersected visual graphite. Key intercepts are shown in the table below:

	From (m)	To (m)	Intercept (m)
1	40.2	45.3	5.1
	<b>99.5</b>	<b>137.8</b>	<b>38.3</b>
2	43.6	46.3	2.7
	63.1	73.0	9.9
3	<b>20.8</b>	<b>49.0</b>	<b>28.2</b>
	125.4	137.3	11.9
	87.7	89.1	1.5
	93.4	96.6	3.2
	97.8	99.4	1.6
	104.7	107.4	2.8
	158.0	159.7	1.7
4	<b>26.7</b>	<b>79.2</b>	<b>52.5</b>
5	29.7	43.9	14.1
	58.9	63.9	5.0
	71.0	80.6	9.6
	93.5	96.7	3.2
6	15.1	28.3	13.2
	53.2	54.3	1.1
7	18.5	19.6	1.1
	47.9	56.2	8.3
	<b>104.4</b>	<b>129.0</b>	<b>24.7</b>
8	1.9	14.8	12.8
	69.8	71.5	1.7
	90.2	97.1	6.9
	<b>139.4</b>	<b>177.0</b>	<b>37.6</b>
9	11.1	18.2	7.1
	37.0	37.6	0.7
	66.8	68.8	1.9
	<b>117.3</b>	<b>142.7</b>	<b>25.5</b>
	<b>142.7</b>	<b>163.7</b>	<b>21.0</b>
10	23.3	24.8	1.6
	42.9	47.3	4.4
	60.4	65.3	4.9
	95.4	108.1	12.7
	<b>128.1</b>	<b>148.8</b>	<b>20.7</b>

**We believe these results are highly encouraging as they confirm the strong conductivity demonstrated by the EM surveys.**

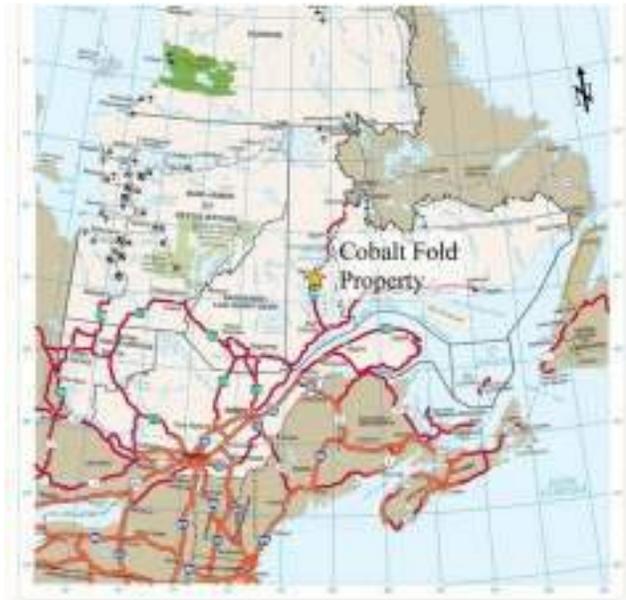
Six additional holes are expected to be drilled.

In June 2017, the company announced that it entered into an agreement with a private company (unrelated party) to acquire the Cobalt Ford property for 2.4 million shares and

*Cobalt Ford  
Property*

\$15k in cash (no royalties).

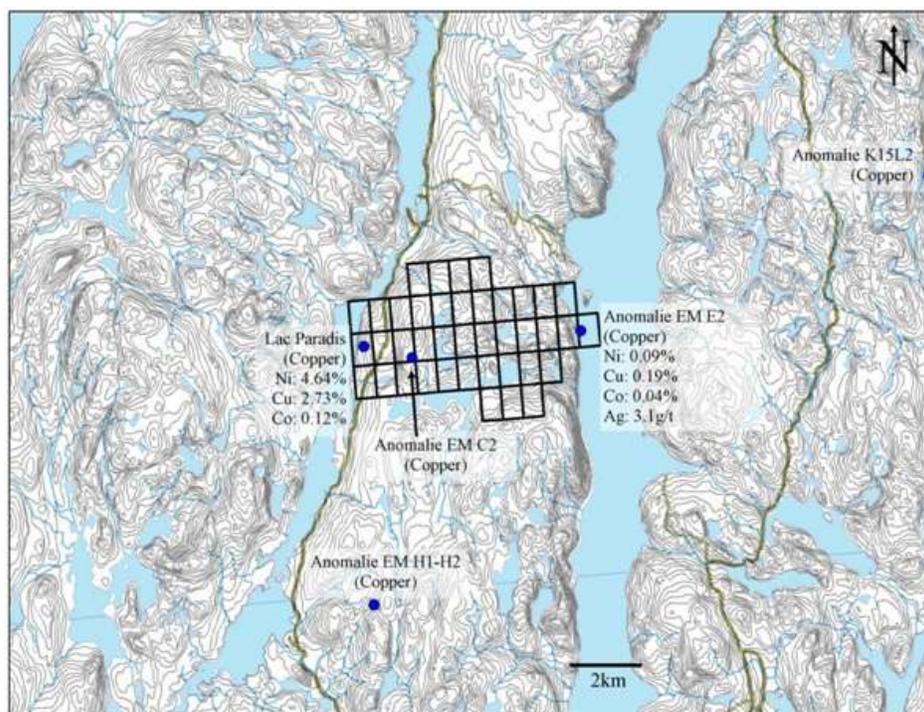
The property is located in the Côte-Nord area of Quebec, and 180 km from Baie-Comeau. The property covers 40 claims totaling approximately 2,176 ha. Access to the property is through a secondary road which is 7 km from HWY 389. The property has good infrastructure and access to power and water.



*Source: Company*

Geological mapping conducted on the property in 1977, 1997, 2005, and 2006, indicated multiple sulphide mineralization occurrences. The property was also subject to airborne magnetic and radiometric surveys in 1996, 2004 and 2006. Rock sampling returned cobalt values of 0.09% to 0.15%. A drilling program was conducted in 2006 on the western part of the property.

The property has three primary showings:



Source: Company

- The Lac Paradis 1 showing returned 4.64% Ni, 2.37% Cu, 0.12% Co, 19ppb Pt, 110ppb Pd and 168ppb Au.
- EM C2 returned up to 1554ppm Cu, 229ppm Ni and 5.6ppm Ag.
- EM E2 returned up to 0.19% Cu, 0.09% Ni, 0.04% Co and 3.1ppm Ag

As shown in the above map, the property also had two significant showings in the vicinity, indicating the potential for copper-nickel- cobalt-PGE mineralization occurrences.

- EM H1-H2 (6 km south of the property) returned 0.16% Ni, 0.67% Cu and 0.02% Co.
- K15L2 (10 km east of the property) returned 0.50% Cu

**Berkwood intends to conduct a full review of the historical work and additional prospecting, sampling and mapping of outcrops on the property to define drill targets.**

On July 11, 2017, the company announced an agreement with a private company (unrelated) to acquire the Delbreuil Lithium project for 2.1 million shares and \$15k in cash. The project

covers 53 claims totaling 3,064 ha.

The highlight of the project is that it is located over a lithium rich zone of the Abitibi area, in Quebec. It is located approximately 78 km southwest of Val-D'Or.



*Source: Company*

The following points summarize the historic work conducted on the property:

- Airborne magnetic and EM surveys in 1958, 1964, 1965, 1988, 2004, 2005 and 2006.
- Geological mapping in 1975 indicated the presence of multiple copper-zinc-nickel and lithium-beryl-niobium- tantalum-uranium-thorium mineralization.
- Drill programs in 1957, 1966 and 1987 – lithium potential was never analyzed.
- Lithium values of up to 1.29% were returned from a pegmatitic outcrop.

**Berkwood is currently awaiting the TSX Venture Exchange's approval for the**

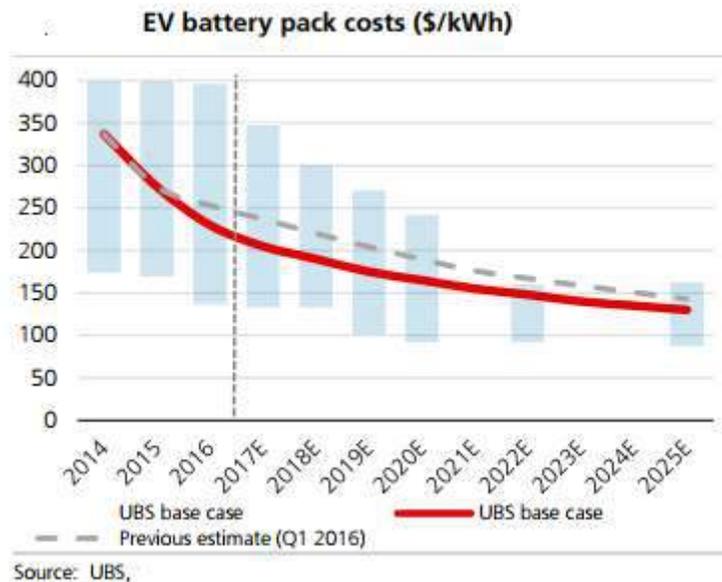
*Positive Outlook on LIBs*

**transaction. The company does not have immediate plans on the project as all of its focus is on the drill program at the Lac Gueret Extensions.**

We expect LIBs to be the primary demand driver of Berkwood’s target commodities including, graphite, cobalt and lithium.

LIB is the most common rechargeable battery in the market today. In a LIB, lithium is used as the electrolyte, graphite as the anode (negative electrode) and cobalt typically as the cathode (positive electrode). LIB is used in a wide range of electronic equipment, such as mobile phones, laptops, and digital cameras to name a few. However, the biggest growth driver is the use of LIBs in electric vehicles (“EV”).

Declining technology costs are also expected to drive demand for LIBs. The cost of a LIB pack dropped from US\$1,000 per kWh approximately six years ago, to the current rate of approximately \$350 per kWh.



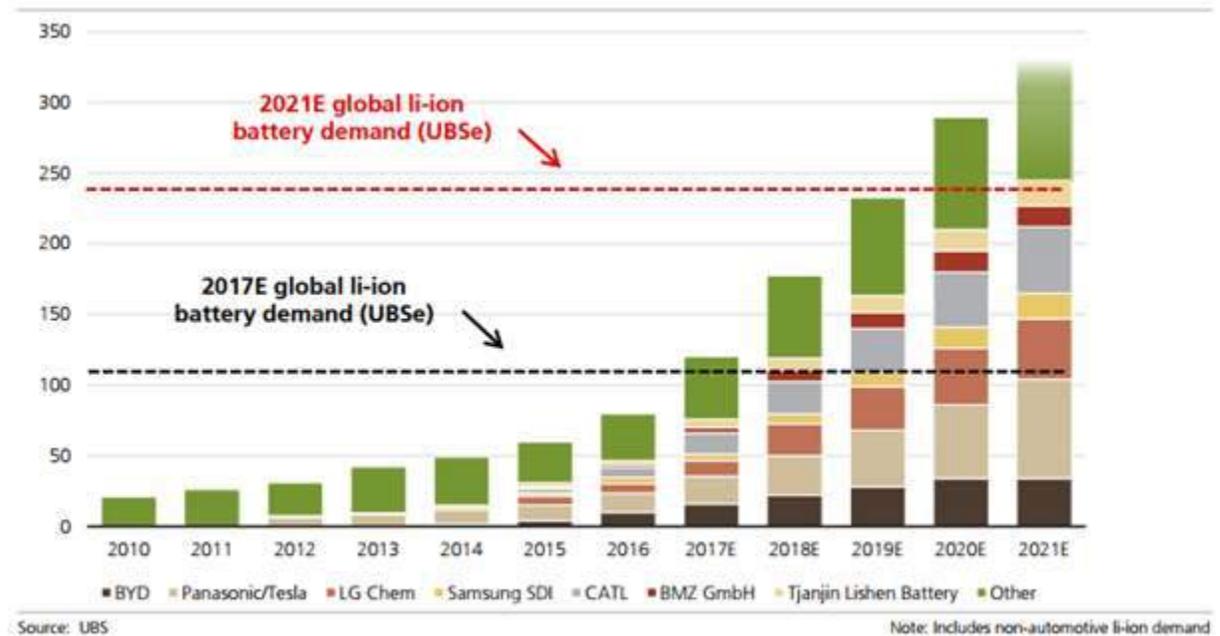
One of the biggest developments in the battery space was the announcement by Tesla (NASDAQ: TSLA) in 2014, that it was building a \$5 billion Lithium-Ion battery manufacturing facility, termed as the “gigafactory”, in Nevada, U.S.A. in partnership with Panasonic (TSE: 6752). This facility opened in 2016.

In addition to Tesla, several other EV (electric vehicles) manufacturers have announced strong projections:

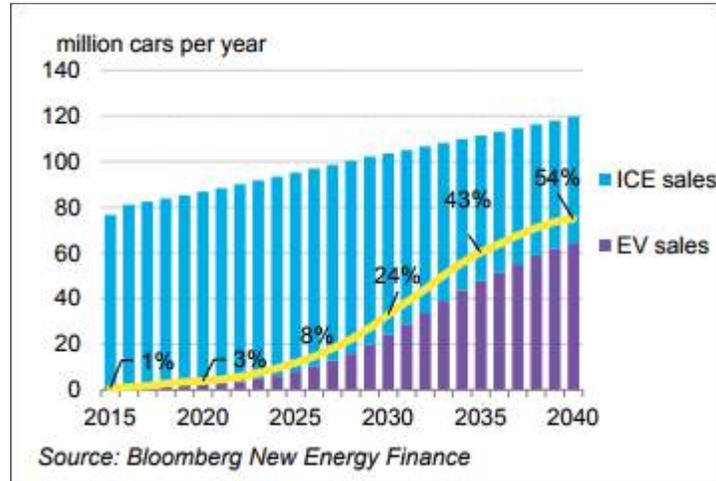
- Volkswagen (XTRA: VOW3) expects to launch over 10 EV models by the end of next year, with the long-term goal of having over 30 models by 2025. Volkswagen estimates they will have 2 - 3 million EVs per year by 2025, requiring approximately 150 GWh of battery capacity.
- Volvo (OM: VOLV B) has stated that they intend to sell over a million EVs by 2025.

- Ford Motor (NYSE: F) announced a commitment to invest US\$4.5 billion to bring 13 new EVs to its portfolio by 2020.
- Porsche AG (DB: PAH3) announced a €700 million investment to their main assembly plant for EV production.
- Chinese backed Faraday Future plans to invest US\$1.0 billion to develop intelligent EVs.
- In addition to the above, General Motors (NYSE: GM), Nissan (TYO: 7201), Audi (FWB: NSU), BMW (FWB: BMW), Mercedes (FWB: DAI), BYD (SEHK: 1211), Mitsubishi (TYO: 6503), and Renault (Euronext: RNO) have EVs in their current / future portfolio.

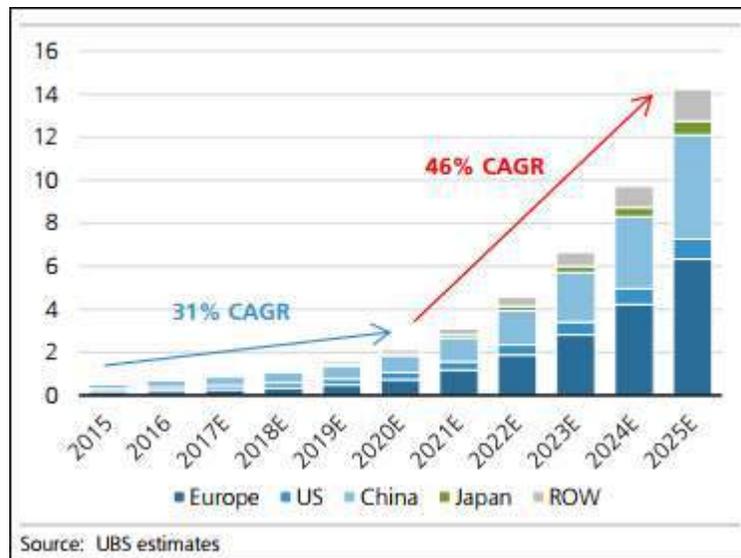
The current production capacity of LIBs is approximately 75 GWh globally. However, once Tesla’s gigafactory and the other facilities being built by LG Chem (KRX: 051910), Foxconn (SEHK: 2038), BYD, and Boston Power are completed, the total capacity is estimated to reach 285 GWh by 2020.



The following chart shows that EV car sales are estimated to be approximately 54% of light-duty vehicle sales by 2040 globally.



The Commodities Research Unit (“CRU”) Group estimates electric car and plug-in hybrid vehicle sales could reach approximately 14.2 million by 2025 (up from 0.77 million last year), reflecting a CAGR of 38% per annum (“p.a.”) from 2016 to 2025.



The above factors support a highly positive outlook on LIBs, and we believe the strong demand will benefit companies targeting battery-grade graphite, cobalt and lithium.

The company had a major revamp of its management team this year. The team is headed by CEO Thomas Yingling, who joined in January 2017. **The company’s board has four members, of which, two are independent.**

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

**Mr. Thomas Yingling - President, CEO and Director**

Mr. Thomas Yingling benefits from over 23 years experience managing publicly traded

*Management*

companies. He has served as President and CEO and/or a director of other resource based public companies. During that time Mr. Yingling has specialized in Corporate Finance, raising capital, corporate communications and strategic planning for the companies. Mr. Yingling has built and maintained strong business relationships in North America, Europe and Asia.

**Mr. Binny Jassal - CPA, CGA FCCA, Chief Financial Officer and Director**

Mr. Binny Jassal brings over 20 years of accounting and management experience to the Company. Mr. Jassal is qualified as a Certified Public Accountants (CGA) in Canada, and fellow member of Association of Chartered Certified Accountants in London England and holds Certificate in Accounting and Finance from Ryerson University Toronto. Mr. Jassal is currently serving as a director and/or chief financial officer for a number of public companies in the mining sector. Mr. Jassal will be an important member of the team working on the financial and corporate side of the operations.

**Mr. Ian Graham - Director**

Mr. Ian Graham is a mining professional with over 20 years of experience in the technical characterization and financing of mineral deposit exploration and development. Ian's experience with major mining companies Anglo American and Rio Tinto has been followed by experience in founding and financing public companies in the minerals sector. In his roles with both the major and junior companies, Ian has been involved with the modeling of project economics (DCF) and the structuring of project and company financing. Ian's project roles have taken him to southern Africa, Canada, the US, India, and Russia; as Chief Geologist with the Project Generation Group at Rio Tinto his focus was of a global nature. Ian's corporate roles have involved establishing Canadian companies with projects active in Canada, the US, Colombia and Peru: these companies have completed financing in the Americas, Europe and China. Ian's mine projects include the Diavik Diamond Mine (Northwest Territories, Canada), Resolution Copper (Arizona, USA), Eagle Nickel (Michigan, USA), Lakeview Nickel (Minnesota, USA) and Bunder Diamonds (India). Ian graduated from the University of Natal (now Kwa-Zulu Natal) in Durban, South Africa with a B.Sc. in Geology and Applied Geology (1984) and B.Sc. (Hons) in Geology (1985).

**Mr. Charn Deol – Director**

Mr. Charn Deol has over 35 years of experience in the financial markets. Mr. Deol currently serves on both private and public company boards as a director or in a management capacity. His past and present experience includes providing management and consulting services to companies, project analysis, investor relations, technical market analysis and the financing of international projects. Mr. Deol has extensive experience in international business development, having previously been a senior partner in a futures trading firm (Evergreen Futures) with operations in Canada and Asia and negotiating mining projects internationally.

*Financials*

At the end of Q1-FY2017 (ended May 31, 2017), the company had cash and working capital of \$0.85 million and \$0.89 million, respectively. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$72k per month in the first three months of FY2017. The following table summarizes the company's liquidity position:

(in C\$)	2016	2017 (3M)
Cash	\$532,703	\$845,072
Working Capital	\$168,985	\$893,749
Current Ratio	1.39	2.75
LT Debt / Assets	-	-
Monthly Burn Rate (incl. investing activities)	\$59,218	\$71,257
Cash from Financing Activities	\$1,387,094	\$938,535

In August 2017, the company raised approximately \$1 million by issuing the following:

- 2 million units at a unit price of \$0.37 for gross proceeds of \$0.74 million. Each unit consisted of a common share and a common share purchase warrant (exercise price - \$0.49 for 2 years).
- 0.62 million units at a unit price of \$0.33 for gross proceeds of \$0.21 million. Each unit will consist of a common share and a common share purchase warrant (exercise price - \$0.45 for 2 years).
- 0.10 million flow-through units at \$0.40 per unit for gross proceeds of \$40k. Each unit will consist of a flow-through share and a common share purchase warrant (exercise price - \$0.50 for 2 years).

We estimate the company currently has 0.86 million options outstanding (weighted average exercise price of \$0.45 per share) and 9.04 million warrants (weighted average exercise price of \$0.39 per share) outstanding. 0.36 million options, and all of the warrants are currently in-the-money. **The company can raise up to \$3.64 million if all these in the money options and warrants are exercised.**

*Conclusion*

We believe Berkwood will significantly benefit as Mason advances its Lac Gueret to production, potentially by 2018. The close proximity also provides Berkwood significant market credibility and relatively easy access to capital for a junior. **We recommend speculative investors start monitoring Berkwood as positive results from the ongoing drill program at Lac Gueret will have a significant impact on the share price.** The preliminary results of the first two holes, and the large anomalies hit by previous geophysical and EM survey are very encouraging, and indicate high probability of a potential discovery.

*Risks*

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

- Projects currently in the portfolio are in very early stages.
- None of the projects have NI43-101 compliant resource estimates.
- Exploration and development risks.
- Volatility in commodity prices.
- Access to capital and share dilution.

As with most junior exploration companies, we rate 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.

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