Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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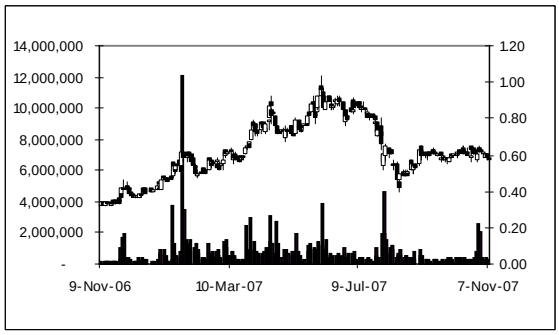
Formation Capital Corporation (TSX: FCO) – Update on Cobalt Market and Permitting

Sector/Industry: Junior Mining/ Cobalt/Precious Metals Refining www.formcap.com

Market Data (as of November 15, 2007)

Current Price	C$0.48
Fair Value	C$0.74 (↑)
Rating*	BUY (↑)
Risk*	4 (Speculative)
52 Week Range	C$0.32 – C$1.04
Shares O/S	203,004,350
Market Cap	C$115.71
Current Yield	N/A
P/E	N/A
P/B	1.67
YoY Return	45.5%
YoY TSX	12.2%

*see back of report for rating and risk definitions



Investment Highlights

- Formation Capital's flagship project is the Idaho Cobalt project, currently in the permitting, engineering, and procurement stage. It is expected to be the United States' sole primary high purity cobalt producer and metals refiner.
- The company has ordered ball mill equipment for the Idaho Cobalt Project, which will be delivered next summer.
- Formation Capital owns a hydrometallurgical complex in Idaho that will be retrofitted to process the cobalt-copper-gold concentrate from the Idaho Cobalt project.
- A revised timeline, including a biological assessment, has moved the "record of decision" for final permitting to Q1-2008.
- The owners of the former Blackbird Mine, who are involved in environmental cleanup, have removed their protest of Formation Capital's water right application.
- Higher COGS continued to impact operating margins of the Sunshine Refinery. In the first six months of FY2007, the refinery recorded a net loss of $0.04 million versus an operating profit of $0.08 million in the comparable period in the previous year. However, the refinery is in very early stages, and we expect revenues and operating margins to improve as the refinery gains more credit and signs more contracts with suppliers.
- FCO continues to be in a sound cash position. The company has sufficient access to capital for its operating and investing activities for the rest of FY2008.
- We have raised our fair value estimate from $0.67 to $0.74. We have also upgraded our recommendation from HOLD to BUY. FCO's share price has dropped by 20% since the beginning of November 2007. Therefore, we believe, current price levels represent a good opportunity for investors to buy FCO shares.

Key Financial Data (FYE - Febuary 28)

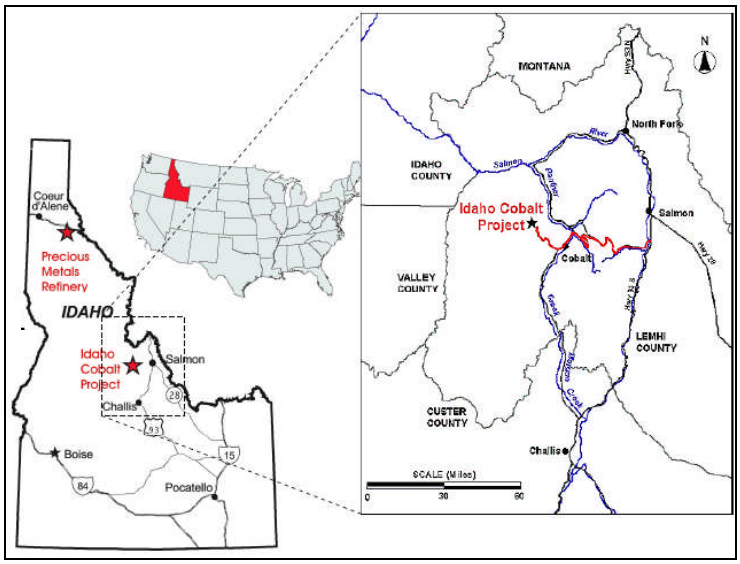
(C $)	2005	2006	2007	Q2-2008 6 mo	2008E	2009E
Cash	13,161,884	2,636,961	5,777,610	19,989,520	19,393,704	726,854
Working Capital	14,170,195	5,357,817	7,975,630	23,742,876	23,285,775	5,008,131
Mineral Assets & PPE	29,838,690	38,134,853	42,238,561	45,711,550	46,900,653	106,525,447
Total Assets	44,856,136	44,681,835	51,267,274	71,271,198	72,812,392	114,422,140
Revenues	-	8,441,165	7,584,650	567,323	2,552,954	2,808,249
Net Loss	(2,589,485)	(2,274,329)	3,573,870	(2,708,131)	(2,513,352)	(867,117)
Loss per Share	(0.02)	(0.01)	0.02	(0.01)	(0.01)	(0.00)

Formation Capital has three separate strategies: the development and production of the Idaho Cobalt project, the exploration of precious metals and uranium properties in North America, and the revenue generating operations of the Sunshine Precious Metals Refinery, which processes client material.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Company Overview

Formation Capital is poised to begin production at their Idaho Cobalt project in the next two years and take advantage of the current high cobalt prices. Formation Capital has a diverse business. Unlike many junior mining companies, they are currently generating revenues through the operations of their Sunshine Precious Metals Refinery. We believe Formation Capital has provided an excellent example of how to advance a mining project successfully, as they have incorporated and considered all of the factors involved. Their project, if successful, will be the Western Hemisphere's sole high purity primary cobalt producer and will meet a significant percentage of the United States' demand for this metal.



Source: Formation Capital Corp.

Idaho Cobalt Project

Property Overview: The Idaho Cobalt project, near Salmon, Idaho, is the company's flagship property and is currently in engineering, procurement, and permitting. The company expects to begin production in Q1-2009. The Idaho Cobalt project is a high grade, primary cobalt deposit that will produce aircraft grade high purity cobalt metal. There is currently a supply shortage of high quality cobalt, due to a lack of concentrate processing facilities, but Formation Capital has sourced their own hydrometallurgical plant. The Idaho Cobalt project will be the only primary producer of cobalt in the Western Hemisphere, and is expected to supply 14% of the United States' demand for cobalt.

The bankable feasibility study was completed in July 2007. Details from the bankable feasibility study are outlined in the table below.

Capital Cost	$138.7 million	Cost of mine workings, building flotation mill and upgrading Big Creek Facility
Operating Cost	$70.72/ton ore	Works out to $7/pound cobalt
Operating Rate	800 tpd	achieve 800 tpd by year 2
Mine Life	10 years	Based on current reserves,

		potential to expand mine life
Recovery	92.8% cobalt, 94.7% copper	At this time, the gold recovery is unknown

Procurement: Formation Capital has completed a purchase order to acquire ball mill equipment for the Idaho Cobalt Project. This includes a 2.9 meter diameter 750 horsepower ball mill with an overflow discharge design. The company has made a down payment, and the promised delivery date is July 4, 2008.

In addition, the company has purchased a 9,600 square foot industrial facility near Salmon, Idaho, along Highway 93 South, for use as a staging area for the off-loading of mine concentrate in transit to the company's hydrometallurgical facility. At this time, the company is using the facility for storage of mining and milling components, which will allow them the begin construction quickly following receipt of final permits.

Mine Permitting: The bankable feasibility study was completed in July 2007. The bankable feasibility study incorporates the finalized mine plan, a core document of the final Environmental Impact Statement and the Record of Decision, which will enable the company to receive their final permitting. In our initial report, we stated that the record of decision was expected in November 2007. This estimate has been slightly delayed by circumstances beyond the company's control.

The Forest Service prepared a Biological Assessment Draft as part of the Environmental Impact Assessment Process. This document concluded that the Idaho Cobalt Project would have no effect on threatened or endangered species. The National Oceanic and Atmospheric Administration Fisheries Service (NOAA) reviewed this document and concluded that they could not concur with the draft of the Biological Assessment Draft. In particular, they cited concern that a hypothetical diesel spill could have a biological effect on threatened or endangered species. Therefore, further biological studies are required and the Forest Service and NOAA must work together to create a "Biological Opinion" on the effects of the Idaho Cobalt Project on threatened and endangered fish. The Biological Opinion will be included in the Final Environmental Impact Statement. We expect the Biological Assessment to establish a fuel spill mitigation and containment program that will result in a positive decision.

The maximum time frame to accommodate this review is 135 days, which would put the final Environmental Impact Statement and Record of Decision in March 2009. The company is hopeful that, if the process proceeds quickly, it can be issued by the end of 2007. There is a 45 day appeal period, and if there are appellants, an appeal resolution process will proceed. In a best case scenario, the ROD will not be appealed and construction could begin in early 2008.

Water Rights: As discussed in our previous report, the Blackbird Mine Site Group (BMSG), comprised of the companies who are liable to the United States for cleanup of hazardous substances from the old Blackbird Mine site, was opposed to the Idaho Cobalt Project. The company received notice that the BMSG has withdrawn its notice of protest

(filed January 2006) with the Department of Water Resources for Idaho regarding Formation Capital's application for water rights. **This is a milestone for the company, who has always maintained, based on modeling and environmental studies, that the Idaho Cobalt Project would not interfere with the clean-up process.** The application can proceed in due course, with no contest, and management expects the water rights will be issued by the end of the year.

Accessibility: The company is still resolving access issues over the BMSG's property. They have been able to use the road for exploration and development activities. They would be able to build a road that does not cross BMSG's property, so road access is not a live or die issue, but it is ideal. According to management, the issue is still in litigation, but they are confident it can be resolved in a timely manner.

Resource Estimates: This property has been the subject of several resource estimates and two pre-feasibility studies, in 1998 and 2001. The company announced an updated resource estimate in 2006 that is outlined below. The 2007 bankable feasibility study calculated a new reserve based on the 2006 resource estimate.

Category	Tonnage (short tons)	Grade	Contained Metal
Measured & Indicated			
Cobalt	2.654 million	0.628%	33.3 million pounds
Copper	2.654 million	0.619%	32.9 million pounds
Gold	2.654 million	0.016 oz/ton	42,464 ounces
Inferred			
Cobalt	1.122 million	0.585%	13.1 million pounds
Copper	1.122 million	0.794%	17.8 million pounds
Gold	1.122 million	0.017 oz/ton	19,074 ounces

Reserves from 2007 bankable feasibility study

Category	Tonnage (short tons)	Grade	Contained Metal
Proven & Probable			
Cobalt	2.636 million	0.559%	29.5 million pounds
Copper	2.636 million	0.596%	31.4 million pounds
Gold	2.636 million	0.014 oz/ton	36,906 ounces

Management: The company has hired a Human Resources Director to manage the construction and implementation of the Idaho Cobalt Project. The company is also in the process of hiring other key personnel, including a General Mine Manager, Mine Superintendent, and Mill Superintendent. Ms. Shiplett's biography follows.

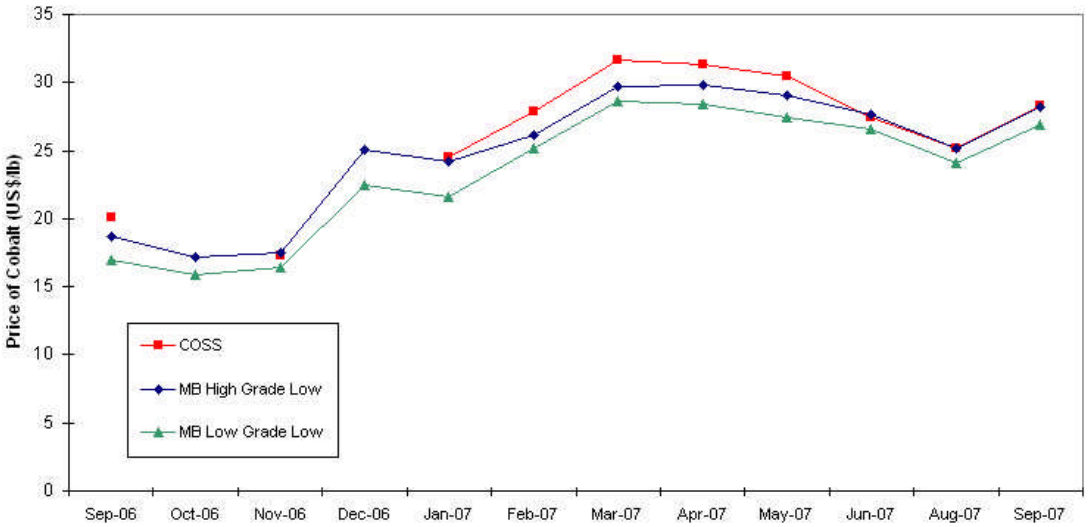
Susan Shiplett – Human Resources Director

Ms. Shiplett holds a Bachelor of Science degree in Management from Lewis-Clark State College. She most recently worked as a consultant for the Idaho Industrial Commission, Rehabilitation Division and previously held positions with Sunshine Mining and Refining

Company as Human Resources Manager, Human Resources Specialist, Employee Relations & Office Manager, and Staff Payroll Accountant.

Outlook for Cobalt

The chart below shows cobalt prices since May 2006. Cobalt prices have increased by 15.6% since we initiated coverage on FCO in June 2007, from US$27.50/lb to US$31.80/lb



Source: BHP

Cobalt is primarily produced as a by-product of copper and nickel production. Cobalt is used in superalloys for jet engines, chemicals (rechargeable batteries, paint driers, catalysts –to turn gas into liquid fuels, magnetic coatings, pigments,), magnets, and cemented carbides for cutting tools. A quick summary of the major demand drivers and growth forecasts is presented below.

- Global demand for cobalt has increased to 56kt in 2006, up from 54kt in 2005, an increase of 3.7% YOY. According to Roskill, global demand for cobalt is estimated to rise to 80kt – 85kt by 2011.
- The two major applications of the metal are in superalloys (for jet engines) and rechargeable batteries. Each application accounts for approximately 22% of global demand. With the emergence of low-cost airlines and increasing mobile phone usage, we believe, growth in demand for cobalt for rechargeable batteries and super alloys, especially in Asia, will stay strong.
- Japan and China are the two largest consumers of cobalt in the world. According to the CRU, Chinese cobalt demand in 2007 is estimated to reach about 15.5kt, up from 10kt (FRC estimate) in 2004.
- Strong demand for superalloys: According to Rolls Royce, aircraft deliveries are expected to double in the next 20 years, from 26,038 during 1986-2005, to 51,814 during 2006-25. Global demand for cobalt for superalloys is projected to grow at 5% p.a., and reach 15kt by 2011 (Roskill).
- Strong demand for rechargeable batteries: We expect demand for cobalt for rechargeable batteries will outpace demand for superalloys, based on strong demand for mobile phones and laptops in Asia. According to Roskill, demand for cobalt for rechargeable batteries

will grow by 12% p.a, and will reach 18kt by 2011. We believe that demand from this sector will increase further as global use of hybrid electric vehicles increases. Also, Japan's largest minicar manufacturer, Daihatsu, recently announced that it is seeking to replace platinum with cobalt and nickel in their fuel cell cars.

- Demand as a catalyst for GTL: We believe that demand for cobalt as a catalyst in gas to liquid technology (GTL) could be one of the major sources of demand in the long-term. According to the CDI, global GTL capacity is expected to increase from 40,000 bpd in 2005, to 1.0 million bpd by 2020. We believe that a significant increase in global GTL capacity will keep demand growth for the metal high.
- Investment demand: Cobalt is not traded on any exchange, and therefore, it was difficult for investors to invest in cobalt until Credit Suisse launched a cobalt futures contract recently. The futures contract allows investors to buy cobalt (at a price based on data published by Metal Bulletin) without ever taking delivery of the metal. We believe investment demand will be another major driver of global cobalt demand going forward.

In the next section, we present our short-term and long-term outlook on global cobalt supply.

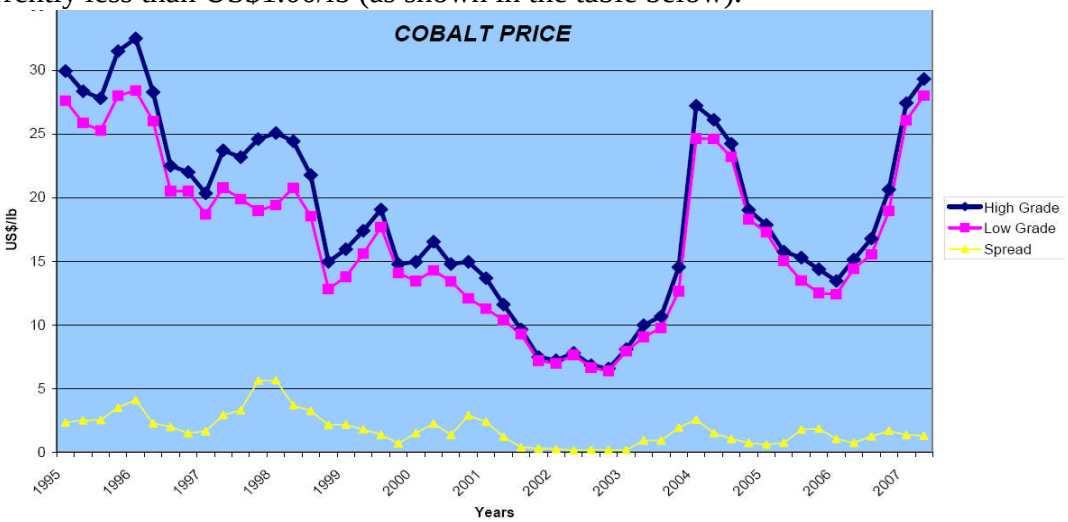
- The Democratic Republic of Congo (DRC) holds about 48% of global cobalt reserves, followed by Australia (20%), Cuba (14%), Russia (4%) and Zambia (4%).
- Congo was the largest producer in 2006, with production of 22kt, followed by Australia (6kt) and Cuba (4kt). There is a huge uncertainty over cobalt supplies going forward, primarily because of the continuing unrest, widespread corruption and the lack of infrastructure in the DRC, which holds about half of the cobalt reserves in the world. Also, there are rumors that 60 mining contracts signed during the war and by the interim government will be subject to review.
- However, China, which is currently the number one producer of refined cobalt (primarily from cobalt-rich ores from Congo) in the world, recently announced that they intend to invest US$5 billion in the DRC to modernize the country's infrastructure and mining sector. The IMF and the World Bank are concerned, as this huge investment in the DRC will significantly increase the country's debt, which are already at high levels. However, we believe, this investment reflects the huge potential in the DRC, and believe that it will improve the health of the mining sector in the DRC.
- Declining ore grades and rising costs are two other factors that could impact cobalt supplies going forward.

Cobalt market is expected to move from deficit to surplus in 2009: The cobalt market was in a deficit of approximately 2kt in 2006, versus a supply surplus of 0.8kt in 2005. The deficit is expected to increase in 2007, and 2008, as demand growth exceeds production. However, the market is expected to move to a surplus once the Ravensthorpe and the Browns projects in Australia are put into production in 2009. The two projects combined will add 5,500 tonnes of cobalt supply.

To summarize, we expect strong demand growth and a rising deficit to keep cobalt prices high in the short-term. Credit Suisse predicts cobalt prices will hit $40/lb by the end of 2007. However, we expect prices to soften in the long-term, as demand growth softens slightly (based on lower global GDP growth forecasts), and as the cobalt market

moves to a surplus in 2009. However, we continue to believe that the growth in demand will be strong enough to support prices above historic lows (US$7/lb since 1989).

Price Differential: FCO will be producing high-grade value added critical application, super alloy grade material (which accounts for about 22% of demand). The price differential between high-grade and low-grade cobalt has ranged between $0/lb - $5.5/lb since 1995, and is currently less than US$1.00/lb (as shown in the table below).



Source: CDI

We estimate the high-grade cobalt market was in a supply deficit of approximately 6kt in 2006. We expect the market for high-grade cobalt to be relatively tighter, primarily because we are not aware of any other company, other than FCO, that has the capability to add to the current supply of high-grade cobalt. As demand (for super alloys) is expected to grow at 5% per annum, we expect the price differential between high-grade and low-grade cobalt to increase from current levels in the future.

We have maintained our long-term price forecast for high-grade cobalt at US$17.50/lb. Our estimate was based on average cobalt prices from 2002 – 06 (US$14.7/lb), plus a premium (for the high-grade metal) of US$2.50 - US$3.00/lb.

Financials

FCO generates revenues through its Sunshine Precious Metals Refinery, which re-started commercial production in September 2005. The Sunshine Metals Refinery refines materials containing silver, gold and copper from dore, industrial precious metal waste, recycled metals, and other high content precious metal bearing materials. The plant has the capability to produce 1,000 oz silver bars, 100 oz gold bars, cylindrical billets and silver crystals. The plant, which operates five days a week, has the capacity to produce over 10 million oz of silver, 350,000 oz of gold and 8 million lbs of copper every year. The refined silver bars produced at the refinery are determined to be 'good delivery' for the Dubai Multi Commodities Centre (DMCC) and the Dubai Gold and Commodities Exchange (DGCX). The company's major customers at this time are mints, photographic companies, other refineries and mining companies.

In Q2-2007 (ended August 2007), the Sunshine Refinery recorded an operating loss of $0.03 million versus an operating profit of $0.09 million in Q2-2006. In the first six months of FY2008, the refinery recorded a loss of $0.04 million versus a profit of $0.08 million in the comparable period in the previous year.

The refinery produced 1.87 mm oz of silver and 1,710 oz of gold in the first six months of FY2008, compared to 1.08 mm oz of silver and 605 oz of gold in the comparable period in the previous year. Even though sales increased YOY, the refinery was in a net loss in the first six months of FY2008, due to a considerable increase in overhead costs due to increased staffing and training needed to handle additional expected contracts. However, the refinery is in very early stages, and we expect revenues and operating margins to improve as the refinery gains more credit and signs more contracts with suppliers.

Based on higher than expected costs in the first six months of FY2008, we have reduced our operating profit forecasts for the Sunshine Refinery for FY2008 and FY2009, from $1.19 million and $1.25 million, to $0.74 million and $0.82 million, respectively.

FCO recorded a net loss of $2.71 million in the first six months of FY2008, compared to a net loss of $0.75 million in the comparable period in the previous year. The net loss increased significantly as the company recorded $1.78 million in stock based compensation in the first six months of FY2008, versus nil in the comparable period in the previous year.

We have lowered our EPS estimates due to lower operating margin forecasts for the Sunshine Refinery, and higher stock based compensation. Our revised forecasts for FY2008 and FY2009 are net losses of $2.51 million; EPS: -$0.01 (previous estimate: net loss of $0.95 million, EPS: -$0.00), and $0.87 million; EPS: -$0.00 (previous estimate: net loss of $1.18 million, EPS : -$0.01)

Cash Position and Liquidity: FCO spent $2.78 million on operations and $3.18 million on investing activities in the first six months of FY2008. However, the company generated $20.17 million from cash flow from financing in the first six months of FY2008. Therefore, the company's cash position significantly improved since the end of FY2007. The table below shows the company's cash and liquidity position at the end Q2- 2007.

Liquidity Analysis	2005	2006	2007	Q2-2008	2008E	2009E
Current Ratio	18.15	5.58	8.57	14.07	9.87	2.73
Working Capital	14,170,195	5,357,817	7,975,630	23,742,876	23,285,775	5,008,131
Debt / Capital	-	-	-	-	-	-
Interest Coverage Ratio	-	-	-	-	-	-

The company continues to be debt-free. Cash and working capital at the end of August 2007 were $19.90 million and $23.74 million, respectively, compared to $5.78 million and $7.98 million at the end of February 2007. **We believe the company is in a sound cash position, and believe that FCO has sufficient access to capital for its operations and investment activities for the rest of FY2008.**

Stock Options and Warrants: We estimate the company currently has 10.61 million stock

options (5.91 million are currently 'in-the-money' - assuming that none of the options were exercised since the end of August 2007), with a weighted average exercise price of $0.58, and maturities ranging from January 2008 to June 2010. The company also had 15.26 million warrants (only 0.19 million are currently 'in-the-money' – assuming that none of the warrants were exercised since the end of August 2007), with a weighted average exercise price of $0.97 and expiry dates between June 2008 and November 2008.

Valuation

We have continued to value the Idaho Cobalt project and the Sunshine Refinery based on a Discounted Cash Flow (DCF) model. The table below shows our revised valuation versus our previous valuation on the company.

Valuation		
	Revised Inputs	**Previous Inputs**
Resource (in short tons)	3,215,000	3,215,000
Cobalt		
Contained Metal (in lbs)	39,897,940	39,897,940
Wt. average Grade (%)	0.62%	0.62%
Recovery	93.0%	93.00%
Long-term Price (US$/lb)	$17.50	$17.50
Copper		
Contained Metal (in lbs)	41,765,200	41,765,200
Wt. average Grade (%)	0.650%	0.650%
Recovery	95.0%	95.000%
Long-term Price (US$/lb)	$2.25	$1.75
Gold		
Contained Metal (in troy oz)	52,001	52,001
Wt. average Grade (opt)	0.016	0.016
Recovery	86.0%	86.0%
Long-term Price (US$/oz)	$600	$550
Production Commencement	Q2 - 2009	Q1 - 2009
Mill Processing (tpd)	2009: 400 tpd; 2010+: 800 tpd	2009: 400 tpd; 2010+: 800 tpd
Mine Life (in years)	12	12
Average Operating Costs (per short ton)	$70.39	$70.39
Capital Costs (in $mm)	$140,000,000	$140,000,000
Discount Rate	11.63%	12.00%
Terminal Growth Rate (for the refinery)	3%	3%

Net Present Value	**$130,704,787**	**$114,195,402**
Cash	$19,989,520	$22,045,151
Debt	-	-
No. of shares (diluted)	204,696,499	204,733,884
Value per share	**$0.74**	**$0.67**

We made the following noteworthy changes in our valuation model. All the changes in our

valuation model are highlighted (in grey) in the above table.

- Commodity Price Forecast – We have maintained our forecasts on long-term cobalt prices, however, based on an improved outlook on copper and gold, we have raised our long-term copper and gold price forecasts to US$2.25/lb (up from $1.75/lb), and $600/oz (up from $US550/oz), respectively.
- We now estimate production will commence in Q2-2009 versus our previous estimate of Q1 – 2009.
- In out initiating report, we had used a discount rate, which we believe was an overly conservative estimate. Our revised estimate of the company's discount rate is 11.63%, which we believe is an appropriate discount rate for similar projects in a relatively risk-free country. For conservatism, we have assumed zero debt. The discount rate would have been lower if we had assumed that the company will take on debt in the future.
- In our previous model, we had assumed an exchange rate of $1.15 (C$/US$). We have lowered our forecast for FY2009 and FY2010 to $1.05 and $1.10, respectively.

As a result of all these changes, our revised fair value estimate on FCO increased from $0.67 per share to $0.74 per share.

Sensitivity: Our fair value estimate is highly sensitive to cobalt prices and discount rates. The table below presents the sensitivity of our fair value estimate to changes in cobalt prices and discount rates.

Sensitivity Co Price (US$/lb) Discount Rate	$10.00	$12.50	$15.00	$17.50	$20.00	$22.50	$25.00	$27.50	$30.00
8.00%	$0.45	$0.65	$0.86	$1.06	$1.26	$1.46	$1.66	$1.86	$2.07
10.00%	$0.33	$0.51	$0.68	$0.86	$1.03	$1.21	$1.39	$1.56	$1.74
11.63%	$0.26	$0.42	$0.58	$0.74	$0.89	$1.05	$1.21	$1.37	$1.53
15.00%	$0.16	$0.29	$0.42	$0.55	$0.68	$0.80	$0.93	$1.06	$1.19

Investors should note that our revised valuation of $0.74 per share is based on conservative inputs and assumptions.

Conclusions & Rating

Formation Capital continues to advance the project through the permitting process, and has begun the procurement process. The company is in the process of preparing the mine for production, which reflects their confidence that the permitting issues will be resolved in a timely manner. Key personnel are being hired for the mine, mill, and refinery; administrative matters are being streamlined. The largest uncertainty surrounding the project at this time is permitting, and we believe the catalyst for upward movement in the share price is the successful resolution of the permitting and access issues.

B**ased on our revised valuation models, we raise our fair value estimate on FCO from $0.67 per share to $0.74 per share, and upgrade our recommendation to BUY from HOLD. Our revised fair value estimate reflects an upside potential of 54% from current price levels.**

FCO's shares have dropped by about 20% (from $0.61 per share to $0.48 per share) since the beginning of November 2007. Therefore, we believe current prices represent a good opportunity for investors to buy FCO shares.

Risks

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

- The success of development, permitting, and procurement are important long-term success factors for the company.
- The value of the company depends on commodity prices.
- The refinery is in the early stages of production and future revenues will depend on the company gaining credibility and signing long-term contracts.
- The company has been in the permitting process for eight years. Although the final decision is expected in November 2007, there is a risk that permitting may be delayed further due to factors beyond the company's control.

We continue to rate the shares Risk 4: Speculative.

Appendix

Formation Capital Corporation - Income Statement
(in C$)

	2005	2006	2007	2008E	2009E
Revenues - Production					
Revenues - Refinery	-	8,441,165	7,584,650	2,552,954	2,808,249
COGS	-	8,503,763	6,660,326	1,811,010	1,992,111
Net Revenues	**-**	**(62,598)**	**924,324**	**741,944**	**816,138**
Expenses					
Stock-based Compensation	1,502,979	752,200	593,500	1,974,698	210,619
General and Administrative	1,299,633	1,485,639	914,549	1,256,642	1,404,124
	2,802,612	**2,237,839**	**1,508,049**	**3,231,340**	**1,614,743**
EBITDA	(2,802,612)	(2,300,437)	(583,725)	(2,489,396)	(798,605)
Depreciation	51,882	350,793	542,725	337,908	375,205
EBIT	**(2,854,494)**	**(2,651,230)**	**(1,126,450)**	**(2,827,305)**	**(1,173,810)**
Foreign Exchange (gain) loss	13,488	185,654	(172,795)		
Write-down of mineral properties	65,645	-	-		
Other Income	185,876	191,247	4,873,115	313,953	306,693
Taxes				-	-
Income/Loss	**(2,589,485)**	**(2,274,329)**	**3,573,870**	**(2,513,352)**	**(867,117)**
Earnings/Loss per Share	(0.02)	(0.01)	0.02	(0.01)	(0.00)
Shares Outstanding (basic and diluted)	128,966,619	161,549,405	166,648,666	203,379,350	205,048,100

Formation Capital Corporation - Balance Sheet
(in C$)

	2005	2006	2007	2008E	2009E
Assets					
Current					
Cash	13,161,884	2,636,961	5,777,610	19,393,704	726,854
Accounts Receivables	47,860	26,007	41,119	574,415	631,856
Precious Metals Recovery	1,500,103	3,722,277	3,087,744	5,433,030	5,976,333
Prepaid Expenses	286,629	142,415	122,240	510,591	561,650
	14,996,476	**6,527,660**	**9,028,713**	**25,911,739**	**7,896,692**
Reclamation Deposit	20,970	19,322	-	-	-
Mineral Properties	24,772,552	32,860,958	37,635,708	39,966,754	69,779,151
Property, Plant and Equipmer	5,066,138	5,273,895	4,602,853	6,933,899	36,746,296
	44,856,136	**44,681,835**	**51,267,274**	**72,812,392**	**114,422,140**
Liabilities and Shareholders' Equity					
Current					
Accounts Payables	503,465	345,970	294,922	1,358,258	1,494,083
Accrued Liabilities	322,816	823,873	758,161	1,267,707	1,394,478
	826,281	**1,169,843**	**1,053,083**	**2,625,965**	**2,888,561**
Shareholders' Equity					
Share Capital	55,631,626	56,682,645	59,333,293	79,844,183	121,847,833
Contributed Surplus	1,609,101	2,314,548	2,792,229	4,766,927	4,977,545
Deficit	(13,210,872)	(15,485,201)	(11,911,331)	(14,424,683)	(15,291,800)
	44,029,855	**43,511,992**	**50,214,191**	**70,186,427**	**111,533,579**
Total Liabilities & S.E	**44,856,136**	**44,681,835**	**51,267,274**	**72,812,392**	**114,422,140**

Formation Capital Corporation - Statement of Cash Flows
(in C$)

	2005	2006	2007	2008E	2009E
Cash Flows from Operating Activities					
Net Income for the Period	(2,589,485)	(2,274,329)	3,573,870	(2,513,352)	(867,117)
Items not Involving Cash:					
Depreciation	51,882	350,793	542,725	337,908	375,205
Others	65,645		(4,780,371)		
Stock-Based Compensation	1,502,979	752,200	593,500	1,974,698	210,619
	(968,979)	**(1,171,336)**	**(70,276)**	**(200,746)**	**(281,293)**
Changes in Non-Cash Working Capital Items:					
	(1,105,500)	**(1,712,545)**	**262,332**	**(1,694,051)**	**(389,207)**
	(2,074,479)	**(2,883,881)**	**192,056**	**(1,894,796)**	**(670,500)**
Cash Flows from Financing Activities					
Issuance of Common Shares	13,699,142	1,004,266	2,585,979	20,135,890	41,000,000
Issuance of Warrants and Options	(881,370)			375,000	1,003,650
	12,817,772	**1,004,266**	**2,585,979**	**20,510,890**	**42,003,650**
Cash Flows from Investing Activities					
Mineral Property Expenditures	(6,412,822)	(8,088,406)	(4,565,396)	(5,000,000)	(60,000,000)
Purchase of PP&E	(1,901,911)	(558,550)	(262,725)		
Proceeds on Sale of PP&E / Inventory			5,171,413		
Others	1,737	1,648	19,322		
	(8,312,996)	**(8,645,308)**	**362,614**	**(5,000,000)**	**(60,000,000)**
Increase in Cash	**2,430,297**	**(10,524,923)**	**3,140,649**	**13,616,094**	**(18,666,850)**
Cash, Beginning of Period	10,731,587	13,161,884	2,636,961	5,777,610	19,393,704
Cash, End of Period	**13,161,884**	**2,636,961**	**5,777,610**	**19,393,704**	**726,854**

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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