Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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April 8, 2008

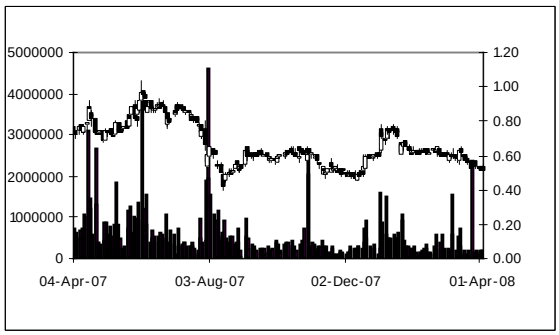
Formation Capital Corporation (TSX: FCO) – Record of Decision expected in July 2008; Operating profits improved in Q3 2008

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

Market Data (as of April 7, 2008)

Current Price	$0.53
Fair Value	$0.80 (↑)
Rating*	BUY
Risk*	4 (Speculative)
52 Week Range	$0.40 - $1.04
Shares O/S	203,873,133
Market Cap	C$108.05 million
Current Yield	N/A
P/E	N/A
P/B	1.56
YoY Return	-27.40%
YoY TSX	-22.6%

*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.
- A revised timeline, including a biological opinion from the National Oceanic and Atmospheric Administration has moved the "record of decision" for final permitting from the Forest Service to July 2008.
- Water rights have been granted to the project, representing an important permitting milestone towards the final Record of Decision (ROD).
- The company has recently added Cecil Andrus, former U.S. Secretary of the Interior and former Idaho governor to the Board of Directors. Mr. Andrus plans to advocate for the permitting of the Idaho Cobalt Project however possible.
- Drilling results from Cameco/Areva's Virgin River project, in which Formation Capital holds a 2% interest, were very positive.
- Operating margins improved in Q3 2008 as the company continues to optimize operations and increase the production capacity of its Sunshine Refinery.

Key Financial Data (FYE - Febuary 28)

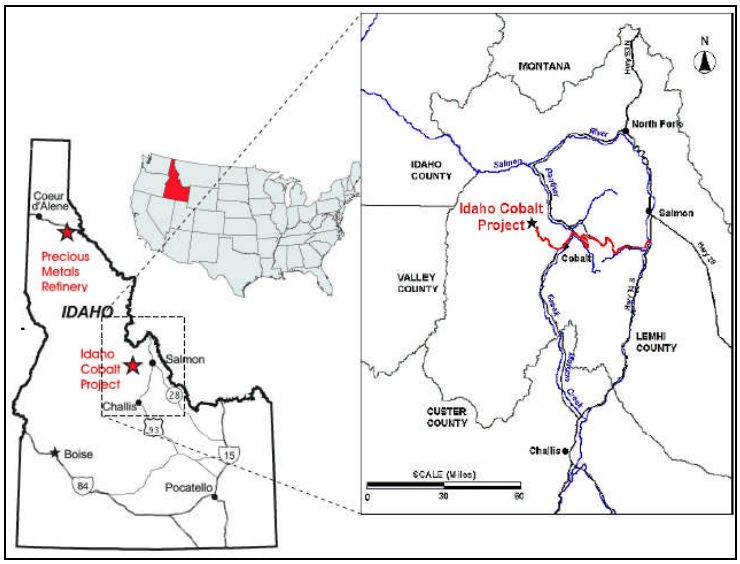
(C $)	2005	2006	2007	2008E	2009E
Cash	13,161,884	2,636,961	5,777,610	16,662,442	84,335
Working Capital	14,170,195	5,357,817	7,975,630	18,107,390	1,749,592
Mineral Assets & PPE	29,838,690	38,134,853	42,238,561	51,417,463	120,356,123
Total Assets	44,856,136	44,681,835	51,267,274	72,760,987	125,665,463
Revenues	-	8,441,165	7,584,650	5,054,251	6,317,813
Net Loss	(2,589,485)	(2,274,329)	3,573,870	(4,106,026)	(624,569)
Loss per Share	(0.02)	(0.01)	0.02	(0.02)	(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 Corporation

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's goal is begin production in Q3-2009. 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	$70.39/ton ore works out to $7.73/pound cobalt	Includes mining, milling, and processing
Operating Rate	800 tpd	achieve 800 tpd by year 2
Mine Life	10 years + 4 years inferred material	Based on current reserves, potential to expand mine life
Recovery	92.8% cobalt, 94.7% copper	At this time, the gold recovery is unknown

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.

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 were required and the Forest Service and NOAA must both agree on a "Biological Opinion" on the effects of the Idaho Cobalt Project on threatened and endangered fish. The final Biological Assessment was completed by the Forest Service on December 26, 2007, and this document has been forwarded to NOAA. NOAA has a 135 day consultation period that will result in a Biological Opinion. This document will provide the Forest Service with any additional mitigation measures that NOAA and Fish and Wildlife Service would want incorporated in the Record of Decision.

The maximum time frame to accommodate this review is 135 days, which would put the completion of the Biological Opinion in May 2008. The Forest Service has allotted conservative additional time to issue the final Environmental Impact Statement and Record of Decision. We have conservatively estimated July 2008. 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 summer 2008.

Water Rights: The company has been granted water rights from the Department of Water Resources (State of Idaho). This permit will allow the company to dewater the Ram deposit and utilize the water in the mill for milling and froth flotation to produce a cobalt and copper concentrate. Engineering studies have indicated that the dewatering process will generate more than enough water to use in the mill. The permit also allows for the use of water from the Sunshine deposit and two other areas in the Idaho Cobalt Project. **The granting of water rights is a very important step for the company, because it demonstrates advancement on permitting.**

Accessibility: The company is still resolving access issues over the Blackbird Mine Site Group (BMSG)'s properties. This group is comprised of the companies who are liable to the United States for cleanup of hazardous substances from the old Blackbird Mine site's property. Formation Capital has been able to use the road for exploration and development activities, but the BMSG opposes the use of the road for the construction of a decline. FCO's management says 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. Formation Capital has initiated legal proceedings to obtain access. The District Judge has issued an order stating that once the permits authorizing development are in place, the court will enter the appropriate order.

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

Virgin River Property

Property Overview: Formation Capital holds 2% carried interest in Cameco/Areva Resources' Virgin River Uranium property. This property is located in the Athabasca Basin of Saskatchewan, and is prospective for a large uranium deposit like Cameco's McArthur River and Cigar Lake. It is considered the best new target discovered along the Dufferin/Virgin River fault trend in over 25 years of exploration.

Ownership: Cameco Corp (TSX:CCO) and Areva Resources (PARIS:CEI) have a private joint venture company, UEM Corporation. UEM Corporation owns 98% of the Virgin River property and acts as the operator. Formation Capital holds 2% interest, which was carried through to $10 million spent on exploration. $10 million was spent following the 2007 exploration program, and Formation Capital is expected to fund 2% of exploration going forward. Formation Capital has the first right of offer to gain an additional 8% interest, for a total interest of 10%.

Geology and Mineralization: The target at Virgin River is an unconformity type uranium deposit. The company has outlined a mineralized zone, known as the Centennial Zone, with a known strike length of 550 meters.

Current Developments: The 2007 drilling program was comprised of two parts: a spring program consisting of 3,170 meters, and a summer/fall program consisting of 4,788 meters in three pilot and four wedge holes. Based on radiometric data collected in the field, UEM believed that this program intersected the highest-grade mineralization to date. This was

confirmed by assay results outlined in the table below. Each drill hole was analyzed using three methods. The results were consistent. The best hole intersected 14.2 meters of 9.39%U_3O_8, which is an excellent width and grade for uranium.

Method	Grade Cut-off	From (m)	To (m)	Thickness (m)	Maximum Grade %U3O8	Average Grade %U3O8
DDH VR-027W2						
Geochemical Assay	0.5	805.7	819.9	14.2	52.20	9.39
includes	1.0	809.6	819.9	10.3	52.20	12.76
Delayed Nuetron Count Method	0.5	805.7	819.9	14.2	51.60	9.27
includes	1.0	809.6	819.9	10.3	51.60	12.60
Average Gechemical Assay	**0.5**	**805.7**	**819.9**	**14.2**	**51.90**	**9.33**
includes	**1.0**	**809.6**	**819.9**	**10.3**	**51.90**	**12.68**
DDH VR-029						
Geochemical Assay	0.5	797.0	799.5	2.5	1.79	0.81
includes	1.0	797.0	797.5	0.5	1.76	1.76
Delayed Nuetron Count Method	0.5	797.0	799.5	2.5	1.72	0.82
includes	1.0	797.0	797.5	0.5	1.72	1.72
Average Gechemical Assay	0.5	797.0	799.5	2.5	1.74	0.81
includes	1.0	797.0	797.5	0.5	1.74	1.74
DDH VR-029W1						
Geochemical Assay	0.5	797.5	802.0	4.5	38.00	10.41
includes	1.0	798.0	802.0	4.0	38.00	11.63
Delayed Nuetron Count Method	0.5	797.5	802.0	4.5	38.40	10.30
includes	1.0	798.0	802.0	4.0	38.40	11.51
Average Gechemical Assay	**0.5**	**797.5**	**802.0**	**4.5**	**38.20**	**10.36**
includes	**1.0**	**798.0**	**802.0**	**4.0**	**38.20**	**11.57**

Source for data: Formation Capital Corporation

This is very encouraging for the future of the project. The joint venture has approved a budget of $5.5 million at Virgin River for 2008. Drilling has continued since January, and a second rig has been mobilized to the project. Formation Capital has completed their flow through financing to participate in this program.

Resource Estimates: This property does not have any historic or NI 43-101 compliant resource estimates at this time.

Management Appointments

The Company is in the process of hiring key personnel for the Idaho Cobalt Project, including a Mine Superintendent, and Mill Superintendent. The biography of Guy Jeske, General Manager, follows.

Mr. Guy Jeske - General Manager for the Underground Mine and Mill

Mr. Jeske brings to Formation a wide range of operations and maintenance experience in mining, crushing, and milling and possesses strong business, environmental and management skills. He was most recently the Vice President and General Manager for the Rochester mine in Nevada owned and operated by Coeur d'Alene Mines Co. He has over 31 years of mine management and explosives industry experience, including 11 years with

Cyprus Minerals including five years as Resident Manager of the Yellowstone Talc Mine near Ennis, Montana and two tours of service at Thompson Creek. He has a Bachelor of Science degree in geological engineering and holds Professional Engineer's licenses for mining engineering in both Nevada and Michigan.

Mr. Jeske will manage the development of the mine and mineral processing plant from final design through construction and operation. He will be responsible for directing daily operations and the implementation of goals, objectives, policies, procedures and work standards.

Board of Directors Appointments

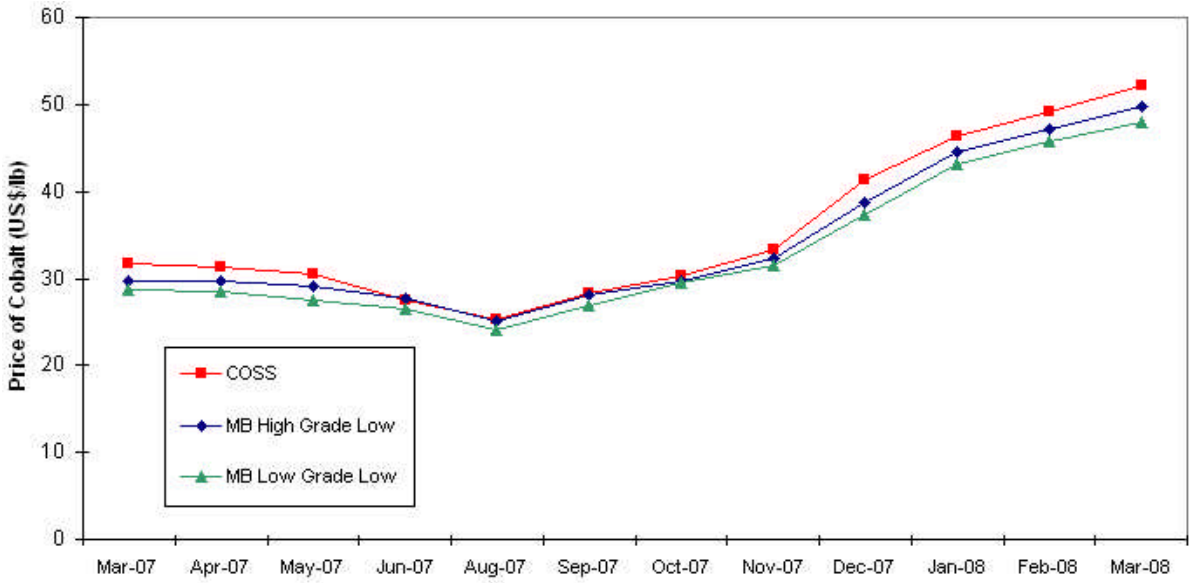
The company has appointed Cecil D. Andrus, a former governor of Idaho and former U.S. Secretary of the Interior during the Jimmy Carter administration, to the Board of Directors. Mr. Andrus is noted for his strong environmentalist views, exemplified by his work in protecting wilderness in Alaska, and advocating for the Endangered Species Snake River Salmon and the role of dams in harming this species' habitat. He has publicly commented on the Idaho Cobalt Project's small environmental footprint, calling it the "best green mining project I have ever reviewed". He has also stated, "I will do all within my ability to see that this project is permitted promptly and I look forward to carrying the word to Washington, D.C., regarding the national importance of this project and the need, after 14 years of jumping through all the hoops conceivably possible, to finalize and issue the permit so construction can begin by this coming summer."

Cecil D. Andrus - Director

Mr. Andrus previously served four terms as the governor of Idaho (1971-1977 and 1987-1995) and a former U.S. Secretary of the Interior (1977 –1981). Andrus has served on the boards of Albertson's, Key Bank and Coeur d'Alene Mines Corporation since leaving office in 1995. He currently is "of counsel" to the Gallatin Group, a northwest based public affairs firm and chairman of the Andrus Center for Public Policy at Boise State University.

Outlook for Cobalt

The chart below shows cobalt prices since January 2007. Cobalt prices have more than doubled since January 2007, and are currently trading at US$52.25/lb**.**



Source: BHP Billiton

We believe, strong global demand growth of about 6 – 7% in 2007, and supply stoppages in the DRC and Zambia, were the primary reasons for the supply deficit, and the strong increase in prices. According to the Financial Times, shipments from the DRC have almost dried up since October 2007, as the central government banned concentrates from leaving the country. The cobalt market however, is expected to move to a surplus position in 2009, as new projects are put into production. For 2008 and 2009, Credit Suisse expects the market to be in a supply deficit of 1,680 tonnes and a supply surplus of 5,000 tonnes, respectively. However, it is worth noting that none of the new material that is expected to come on stream is of high purity.

Price differential is expected to increase: FCO's advantage is that they will be producing high purity 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 between US$1/lb and US$2/lb (as shown in the above chart).

One of the primary drivers of demand for the high purity metal is from the aerospace sector. We expect demand from this sector will stay strong as global aircraft fleets are expected to double in size over the next 20 years at an annual growth rate of 3.3% (Rolls-Royce). The high purity cobalt market, we estimate, was in a supply deficit of 6,000 tonnes in 2006. CVRD (NYSE: RIO) and Xstrata (LSE: XTA) are the only two producers of high purity cobalt suitable for super alloys used in safety critical applications. We expect this market to stay 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 purity cobalt. We believe an increase in demand for the high purity metal, will lead to an increase in the price differential between high purity and low purity cobalt in the future.

Although we have maintained our long-term outlook on high purity cobalt prices at US$17.50/lb, we have raised our short-term and mid-term price forecasts, based on continued growth in demand and lack of sufficient supply. Our valuation models now assume that cobalt prices will decline gradually from US$25/lb (price at the beginning of 2007) to US$17.50/lb during 2010 to 2013. Beyond 2013, we have maintained our price assumptions at US$17.50/lb.

Financials

Improved performance in Q3-2008: The company generates revenues from its Sunshine Refinery. In Q3-2008 (ended November 2007), the refinery recorded an operating profit of $0.29 million versus an operating loss of $0.06 million in Q3 last year, and an operating loss of $0.03 million in Q2 2008. Although sales from the refinery were down YOY ($1.99 million in Q3 2008 versus $2.18 million in Q3 2007), the refinery recorded a net profit due to lower costs of revenues. In the first nine months of FY2008, the refinery recorded an operating profit of $0.26 million versus an operating profit of $0.01 million in the comparable period in the previous year.

During the 3-month period ended November 2007, the refinery produced 1.02 mm troy oz of silver and 2,049 troy oz of gold, compared to 0.89 mm troy oz of silver and 417 troy ounces of gold in the same quarter last year. The refinery produced about 2.89 mm oz of silver and 3,759 oz of gold in the first nine months of FY2008, compared to 1.97 mm oz of silver and 1,022 oz of gold in the comparable period in the previous year.

The company increased staffing and training to prepare for continued expansion of silver refining operations. We continue to expect net operating margins and revenues to improve in Q4 2008, as the refinery increases its production capacity and streamlines its operations. **We have increased our operating profit forecasts for the Sunshine Refinery for FY2008, and FY2009, to $0.88 million and $1.72 million, respectively, up from our previous forecasts of $0.74 million for FY2008, and $0.82 million for FY2009.**

FCO recorded a net loss of $3.88 million in the first nine months of FY2008, compared to a net loss of $0.93 million in the comparable period in the previous year. The net loss increased significantly as the company recorded $2.69 million in stock based compensation in the first nine months of FY2008, versus nil in the comparable period in the previous year. In addition, the company recorded $0.66 million in foreign exchange losses in the first 9 months of 2008, as compared to $0.07 million in the same period last year.

Even though we have increased our operating profit forecasts, we have lowered our EPS estimate for FY2008 due to higher stock based compensation and foreign exchange losses. We also increased our G&A expense forecast to account for the increased costs associated with the expansion of the refinery. Our revised forecasts for FY2008 is a net loss of $4.11 million; EPS: -$0.02 (previous estimate: net loss of $2.51 million; EPS: -$0.01), and for FY2009, is a net loss of $0.62 million; EPS: -$0.00 (previous estimate: net loss of $0.87 million; EPS: -$0.00).

Cash Position and Liquidity: FCO spent $2.10 million on operations and $7.14 million on investing activities in the first nine months of FY2008. However, the company generated

$20.30 million cash flow from financings in the first nine months of FY2008. The table below shows the company's cash and liquidity position at the end Q3- 2007.

Liquidity Analysis	2005	2006	2007	Q3 - 2008
Current Ratio	18.15	5.58	8.57	8.05
Working Capital	14,170,195	5,357,817	7,975,630	19,330,865
Debt / Capital	-	-	-	-
Interest Coverage Ratio	-	-	-	-

The company continues to be debt-free. At the end of November 2007, the company had $16.84 million and $19.33 million in cash and working capital, respectively, compared to $5.78 million and $7.98 million at the end of February 2007. We continue to believe the company is in a sound cash position, and that FCO has sufficient access to capital for its operations and investment activities for the rest of FY2008. Based on capital expenditures of $69.4 million in FY2009, we believe the company will have to raise close to $51 million in FY2009.

Stock Options and Warrants: At the end of November 2007, the company had 13.29 million stock options (5.26 million of the options are currently "in the money" – assuming that none of the outstanding options were exercised since the end of November 2007), with exercise prices ranging from $0.40 to $0.80, and maturity periods between January 2008 and October 2010. The company also had 15.26 million warrants (0.19 million of the warrants are currently in the money – assuming that none of the outstanding warrants were exercised since the end of November 2007), with exercise prices ranging from $0.40 to $1.00, 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 following table shows our revised valuation of the company compared with the valuation in our previous report.

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%	93.0%
Long-term Price (US$/lb)	$25 (2010), $22.5 (2011), $20 (2012), $17.5 (2013+)	$17.50
Copper		
Contained Metal (in lbs)	41,765,200	41,765,200
Wt. average Grade (%)	0.650%	0.650%
Recovery	95.0%	95.0%
Long-term Price (US$/lb)	$1.75	$2.25
Gold		
Contained Metal (in troy oz)	52,001	52,001
Wt. average Grade (opt)	0.016	0.016
Recovery	86.0%	86.0%
Long-term Price (US$/oz)	$600	$600
Production Commencement	Q1 - 2010	Q2 - 2009
Mill Processing (tpd)	2010: 400 tpd; 2011+: 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%	11.63%
Terminal Growth Rate (for the refinery)	3%	3%

Net Present Value	**$148,228,371**	**$130,704,787**
Cash	$16,662,442	$19,989,520
Debt	-	-
No. of shares (diluted)	205,152,991	203,871,433
Value per share	**$0.80**	**$0.74**

We have made the following noteworthy changes to our model, which are highlighted in gray in the above table.

1. Cobalt Price Forecast – We have revised our cobalt price forecast to US$25/lb in 2010, US$22.5/lb in 2011, US$20/lb in 2012, and US$17.5/lb in 2013+ (Previous: US$17.50/lb for 2009+).
2. Copper Price Forecast – We have lowered our long-term copper price forecast to US$1.75/lb (previous: US$2.25/lb).
3. Revised C$/US$ exchange rate – In our revised model, we have used an exchange rate of

C$1.1/US$ in 2010 (previous C$1.15/US$ in 2010).

4. Revised Production Commencement Date – We have revised our estimate of the production commencement date for the Idaho project to Q1 2010 (previous: Q2 2009).

Our revised fair value estimate on FCO increased from $0.74 per share to $0.80 per share.

Our fair value estimate is highly sensitive to cobalt price forecasts and discount rates. The table below presents the sensitivity of our fair value estimate to changes in long-term cobalt prices (2013+) and discount rates.

Sensitivity								
Co Price (US$/lb)	**$10.00**	**$15.00**	**$17.50**	**$20.00**	**$25.00**	**$30.00**	**$35.00**	**$40.00**
Discount Rate								
8%	0.76	1.03	1.16	1.29	1.55	1.82	2.08	2.35
10%	0.60	0.82	0.94	1.05	1.27	1.50	1.72	1.94
11.63%	0.51	0.71	0.80	0.90	1.10	1.29	1.49	1.69
15%	0.38	0.53	0.61	0.68	0.83	0.98	1.13	1.28

(Note that our sensitivity analysis in our previous report was based on changes in cobalt price assumptions from 2009+)

Conclusions & Rating

We continue to believe Formation Capital has an excellent project and that they have made good progress on advancing the project since our last update. We have seen positive developments on the permitting front, and although the process has been delayed beyond previously expected deadlines, we have accounted for delays in our valuation model and still perceive the company as a BUY.

Based on our revised valuation models, we raise our fair value estimate on FCO from $0.74 per share to $0.80 per share with a BUY rating. Our revised fair value estimate reflects an upside potential of 51% from current price levels.

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 July 2008, there is a risk that permitting may be delayed further due to factors beyond the company's control.

We rate the company a risk of 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	5,054,251	6,317,813
COGS	-	8,503,763	6,660,326	4,175,657	4,593,223
Net Revenues	**-**	**(62,598)**	**924,324**	**878,593**	**1,724,590**
Expenses					
Stock-based Compensation	1,502,979	752,200	593,500	2,958,798	631,781
General and Administrative	1,299,633	1,485,639	914,549	1,505,792	1,579,453
	2,802,612	**2,237,839**	**1,508,049**	**4,464,589**	**2,211,235**
EBITDA	(2,802,612)	(2,300,437)	(583,725)	(3,585,996)	(486,644)
Depreciation	51,882	350,793	542,725	337,908	411,340
EBIT	**(2,854,494)**	**(2,651,230)**	**(1,126,450)**	**(3,923,904)**	**(897,984)**
Foreign Exchange (gain) loss	13,488	185,654	(172,795)	885,924	
Write-down of mineral properties	65,645	-	-		
Other Income	185,876	191,247	4,873,115	703,803	273,415
Taxes				-	-
Income/Loss	**(2,589,485)**	**(2,274,329)**	**3,573,870**	**(4,106,026)**	**(624,569)**
Earnings/Loss per Share	(0.02)	(0.01)	0.02	(0.02)	(0.00)

Formation Capital Corporation - Balance Sheet
(in C$)

	2005	2006	2007	2008E	2009E
Assets					
Current					
Cash	13,161,884	2,636,961	5,777,610	16,662,442	84,335
Accounts Receivables	47,860	26,007	41,119	252,713	315,891
Precious Metals Recovery/inventory	1,500,103	3,722,277	3,087,744	4,175,657	4,593,223
Prepaid Expenses	286,629	142,415	122,240	252,713	315,891
	14,996,476	**6,527,660**	**9,028,713**	**21,343,524**	**5,309,339**
Reclamation Deposit	20,970	19,322	-	-	-
Mineral Properties	24,772,552	32,860,958	37,635,708	45,896,720	107,941,514
Property, Plant and Equipment	5,066,138	5,273,895	4,602,853	5,520,743	12,414,609
	44,856,136	**44,681,835**	**51,267,274**	**72,760,987**	**125,665,463**
Liabilities and Shareholders' Equity					
Current					
Accounts Payables	503,465	345,970	294,922	1,565,871	1,722,459
Accrued Liabilities	322,816	823,873	758,161	1,670,263	1,837,289
	826,281	**1,169,843**	**1,053,083**	**3,236,134**	**3,559,748**
Shareholders' Equity					
Share Capital	55,631,626	56,682,645	59,333,293	79,791,183	132,364,833
Contributed Surplus	1,609,101	2,314,548	2,792,229	5,751,027	6,382,808
Deficit	(13,210,872)	(15,485,201)	(11,911,331)	(16,017,357)	(16,641,926)
	44,029,855	**43,511,992**	**50,214,191**	**69,524,853**	**122,105,715**
Total Liabilities & S.E	**44,856,136**	**44,681,835**	**51,267,274**	**72,760,987**	**125,665,463**

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	(4,106,026)	(624,569)
Items not Involving Cash:					
Depreciation	51,882	350,793	542,725	337,908	411,340
Others	65,645		(4,780,371)		
Stock-Based Compensation	1,502,979	752,200	593,500	2,958,798	631,781
	(968,979)	**(1,171,336)**	**(70,276)**	**(809,320)**	**418,552**
Changes in Non-Cash Working Capital Items:					
	(1,105,500)	**(1,712,545)**	**262,332**	**753,072**	**(220,309)**
	(2,074,479)	**(2,883,881)**	**192,056**	**(56,248)**	**198,244**
Cash Flows from Financing Activities					
Issuance of Common Shares	13,699,142	1,004,266	2,585,979	20,135,890	51,500,000
Issuance of Warrants and Options	(881,370)			322,000	1,073,650
	12,817,772	**1,004,266**	**2,585,979**	**20,457,890**	**52,573,650**
Cash Flows from Investing Activities					
Mineral Property Expenditures	(6,412,822)	(8,088,406)	(4,565,396)	(9,516,811)	(69,350,000)
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**	**(9,516,811)**	**(69,350,000)**
Increase in Cash	**2,430,297**	**(10,524,923)**	**3,140,649**	**10,884,832**	**(16,578,106)**
Cash, Beginning of Period	10,731,587	13,161,884	2,636,961	5,777,610	16,662,442
Cash, End of Period	**13,161,884**	**2,636,961**	**5,777,610**	**16,662,442**	**84,335**

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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