

### Hodgins Auctioneers Inc. (TSX.V: HA) – Initiating Coverage – Auctioneer Focused on Agricultural and Industrial Equipment in Western Canada

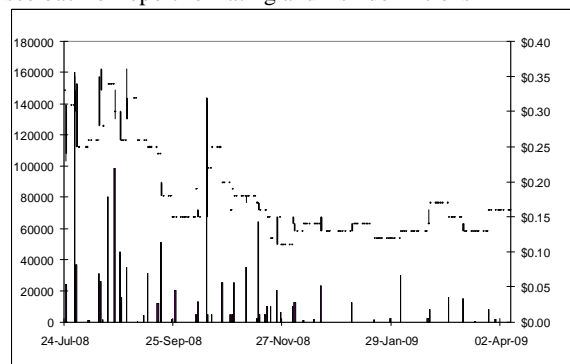
Sector/Industry: Commercial Auction Services

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

#### Market Data (as of April 8, 2009)

Current Price	\$0.16
Fair Value	\$0.31
Rating*	BUY
Risk*	3 (Average)
52 Week Range	\$0.11 - \$0.42
Shares O/S	8.60 mm
Market Cap	\$1.37 mm
Current Yield	N/A
P/E	N/A
P/B	1.81
YoY Return	-46.7%
YTD TSXV	-62.7%

\*see back of report for rating and risk definitions



#### Investment Highlights

- Hodgins Auctioneers is an established auctioneer of agricultural and industrial equipment. The company also provides real estate, forestry, transportation, and oilfield equipment auctions on a less frequent basis.
- The company generates most of its commission revenues from live auctions at locations in Western Canada. The company also provides an online only auction, which offers slightly lower commission rates to sellers as less operational expenses are involved. In addition, Hodgins is currently developing an online automobile auction platform, which allows auto dealers to list automobiles over the internet for immediate auction.
- Hodgins offers a range of services for its auctions such as marketing campaigns, straight commissions, financial guarantees or outright purchases, live internet and proxy bidding services, plus various pre-auction services.
- Geographically, the company focuses on markets in Saskatchewan, Manitoba and Alberta, and also has a market presence in Eastern Canada.
- Auctioning agriculture equipment and farmland is still the core business of the company. However, the company intends to increase its presence in the industrial/construction auction markets, which we believe have higher profit margins.
- The company has had relatively stable revenues in the past. For the first 9 months of 2008, the company reported revenues of \$2.98 million, and net income of \$0.135 million (EPS: \$0.02).

#### Risks:

- The company operates in a highly competitive industry.
- The company's expansion plan is likely to require additional capital, which is difficult to raise in current market conditions.

#### Key Financial Data (FYE - Dec 31)

(Million C\$)	2003	2004	2005	2006	2007	2008E	2009E
Revenue	2.386	3.531	3.611	3.343	4.257	3.446	3.160
Net Income	(0.006)	0.198	0.040	(0.186)	0.487	(0.005)	(0.043)
EPS	n/a	0.040	0.005	(0.020)	0.040	(0.000)	(0.000)
Cash	0.256	0.379	0.469	0.107	0.001	0.233	0.074
Working Capital	(0.691)	(0.008)	0.002	(0.185)	0.216	0.156	(0.019)
Total Assets	0.913	1.082	1.416	0.962	1.328	1.351	1.189
Debts/Assets	83.9%	38.4%	31.0%	41.7%	32.8%	28.0%	23.1%

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

**Company  
Overview**

Hodgins Auctioneers Inc. is a Melfort, Saskatchewan based auctioneer providing auction services of primarily agricultural and industrial equipment. The company also provides auctions of real estate, forestry, transportation and oilfield equipment. The company currently focuses on Western Canada, with a market presence in Eastern Canada. As part of the company's geographical expansion plan, Hodgins has established a new sales office in Mississauga, Ontario in 2008. In addition, the company is currently developing an online auction platform for the automobile industry, where auto dealers can place automobiles for auction.

The company's primary auctions are carried out at live locations in Saskatchewan, Alberta, and Manitoba. To achieve a successful auction, Hodgins offers a range of services such as marketing campaigns, financial guarantees, and proxy bidding. HA also provides onsite support including complete setup services, audio & video recording of the auctions, transportation, and post sales financial settlement services. The company also provides an online only auction, which is able to offer slightly lower commission rates to sellers primarily because of lower operational expenses compared to live onsite auctions.

**Investment Thesis and Valuation Summary:** The company has been a self-sustainable operation since it went public in 2004, with relatively stable revenues and sufficient cash flows from operations to fund its activities. The company currently presents a few good areas to grow its operations, including the company's plan to carry out more bought deals (discussed later), increasing its presence in the industrial and construction equipment segment, as well as the growth potential from the online automobile platform currently under development. However, since the company still has to show growth from these current plans, for conservatism, we have valued the company assuming it continues to operate as it did historically. **Based on our valuation model, we initiate coverage of Hodgins Auctioneers with a BUY rating and fair value estimate of \$0.31 per share, with a RISK of 3 (Average).**

**History**

Auctions have been conducted under the Hodgins Auctioneers brand for over 50 years. Particularly, Hodgins' Auctioneers Inc. has been an auctioneer of farmland and farm equipment since 1978. In July 2004, the company became a public company by completing a reverse takeover of Innoventures International Inc. The company is currently trading on the TSX Venture Exchange under the ticker "HA".

**Onsite Auction  
Services**

The majority of the company's agricultural and industrial equipment auctions are held off site at locations in Saskatchewan, Manitoba and Alberta. Based on our discussion with management, auctions of farmland and farm equipment currently account for most of the company's commission revenues, with a smaller portion of commission revenues generated by auctions of construction and industrial equipment. Less frequently, the company also provides real estate, forestry, transportation and oilfield equipment auctions. Most of the times, Hodgins arranges for open ascending price auctions (known as the English Auction) for its onsite auctions. In open ascending auctions (which is the primary auction method employed in Canada and the U.S.), each bid submitted is higher than the previous bid. The auction ends when no participant is willing to bid at a higher price, and the highest bidder wins and pays his or her bidding price for the auctioned items. Detailed arrangements of

each auction vary. An auctioneer may bid for a buyer per his or her instructions to a maximum bid amount (referred to as proxy or absentee bid). A seller can also set a reserve price in advance, namely, a minimum sale price. If the highest bid does not reach the reserve price, the item either remains unsold or the seller has the option to accept the highest bid. According to management, auctions held by Hodgins usually do not use reserve prices, although the company occasionally allows this option for the sellers.

To achieve a successful auction, Hodgins provides a whole range of support services including:

- Advertising/promotional campaigns for upcoming auctions
- Auction site setup services, which may include detailing and cleaning of auctioned items at a charge
- Onsite sales support systems including wireless computerized clerking and cashiering, which generates a sales report once an auction is over, and the winner can pay immediately
- Audio & video recording of the auctions
- Equipment delivery at a charge
- Post sale financial settlement services
- For buyers who cannot attend auctions in person, they can bid live through the internet via <http://www.bidspotter.com/>, phone the company's cellular station on the auction site to submit their bids, or submit proxy bids to allow the company to bid on their behalf.
- Guarantee a minimum level of sale proceeds for sellers or outright purchase from sellers. We note in situations when Hodgins provides guarantees of minimum sale proceeds to seller, or purchases the equipment outright from the seller, the company may incur a loss if auction proceeds are less than the guaranteed amount or purchase price.

### ***Online Only Auction***

In addition to providing live onsite auctions, the company also provides online only auctions, which are conducted on the internet only with a computer system simulating the bid and ask prices of a live auction. As opposed to moving all items to the auction site, the items remain at the seller's locations, and Hodgins Online Auctions provides detailed descriptions of the item including photos and guaranteed inspection reports (the seller has to make a request to Hodgins to inspect and write the inspection report for the item). This is attractive to sellers as it saves the transportation costs of moving equipment to onsite locations. In addition, the company charges slightly lower commission rates for its online only auctions compared to onsite auctions. This is primarily due to the lower operating expenses associated with online only auctions compared to live onsite auctions. The following table presents a reference of the commission rates for the online only auctions. Based on our discussion with management, we note the company can also negotiate a different commission rate for its online only auctions, arrange a financial guarantee or outright purchase agreement with the seller.

Final Selling Price (per piece)	Commissions (% of Final Selling Price)
\$0 - \$199	15.0%
\$200 - \$999	12.0%
\$1,000 - \$4,999	8.5%
\$5,000 - \$9,999	8.0%
\$10,000 - \$19,999	7.5%
\$20,000 - \$49,999	7.0%
\$50,000 - \$99,999	6.5%
\$100,000 and greater	6.0%

Source: Hodgins Auctioneers Inc.

The online only auctions also provide various valued added procedures such as allowing buyers to submit advance bids instructing the computer to bid on the buyer's behalf, and managing all steps of the payment process for both the buyers and sellers until the item is received and accepted by the buyer. Currently, the company provides 3 types of online only auctions:

**Showcase Auctions** - Showcase Auctions are auctions where items are offered online on a fixed date. All items are subject to a minimum opening bid. However, there are no reserve prices (i.e., minimum price the seller is willing to accept) at a Showcase Auction. The highest bidder becomes the purchaser.

**Signature Auctions** - Signature Auctions are auctions where items are up for auction over seven days, where reserve prices are allowed. Once the reserve price is reached, the seller is obligated to sell the item to the highest bidder. If the reserve price has been met, the highest bidder becomes the purchaser. If the reserve price has not been met, the seller has the option of extending a Sharper Pencil Offer to the highest bidder, which gives the highest bidder the opportunity to purchase the unit at a price at his or her maximum bid. All items are also subject to a minimum opening bid.

**Immediate Purchase Listings** – This option allows the seller to list their equipment online and receive bids until the seller accepts an offer or their listing expires. The seller also has the option to set a reserve price, and when the listing expires, and reserve price has been met, the highest bidder purchases the item. If the reserve price is not met, a seller will have the option of extending a Sharper Pencil Offer.

In addition to the above commission schedule, the online only auction generates revenues from various fees as summarized below:

- The sellers at online only auctions pay an online listing fee of \$75 per piece of

equipment. At the seller's request, Hodgins can also complete a guaranteed inspection report after inspecting the item at the seller's location. Inspection fees are \$500 for the first item, \$400/item for additional items at the same location. Inspection fees for smaller items may be assessed on an individual basis. A guaranteed inspection usually helps to generate more bids from buyers.

- For a Signature Auction or Immediate Purchase Listing with a reserve price, the seller pays a reserve fee of 2% of the reserve price to a maximum of \$750.00 per item.
- Buyers at online only auctions pay Hodgins a transaction fee of 2% of the auction closing bid (i.e., the purchase price) to a maximum of \$500 per item.

***Development of the Online Automobile Auction Platform***

Based on our discussion with management, revenues from online only auctions are still very small compared to onsite auctions. However, we believe the online segment is likely to represent higher growth potential than the company's traditional onsite auctions. Also, the company is currently developing an online auction platform for the automobile industry, where auto dealers can put automobiles up over the internet for immediate auction. The platform also allows bidding through wireless mobile devices. We note that the deep crisis currently affecting the automobile industry may have two opposing effects. The first is that potential automobile buyers may scale back purchases in current market conditions. On the opposite end, the current crises may also increase sales volumes as dealers look to liquidate inventory. In either case, we think this platform provides cost savings for automobile dealers through reduced expenses for transportation and handling costs of automobiles.

***Revenue Model***

The company's revenues are generated from commissions on each item sold from its auctions. Most revenues come from the Spring auction season, which is primarily Q2 of the year. Hodgins offers three types of agreements to sellers, namely straight commission, financial guarantee, and outright purchase. In a straight commission contract, the seller pays a certain percentage of the items sold. Hodgins will charge a commission usually based on costs associated with the auction plus a profit markup. Financial guarantee and outright purchase, referred to in the industry as "bought deals", are situations whereby the auctioneer guarantees a sales amount or purchases the item outright from the seller. To illustrate, in an 8% straight commission contract, Hodgins will make \$800 commission if the equipment is sold at \$10,000. In a financial guarantee contract, if Hodgins guarantees the seller \$7,200 net and Hodgins keeps the next \$800 plus 30% of any amount received above \$8,000 (the seller takes 70%), Hodgins will make \$1,400 if the equipment is sold for \$10,000. However, if the equipment is only sold for \$6,000, Hodgins still pays the seller \$7,200, and incurs a loss of \$1,200. In an outright purchase contract, if Hodgins purchases the equipment for \$8,500, and sells the equipment for \$10,000, the company makes \$1,500. However, if the final sales price is only \$7,000, the company loses \$1,500.

To put this in perspective, in a bought deal, the company has the opportunity to generate higher gross margins at the cost of taking risks on potential losses. In a straight commission agreement, the company only takes the fixed rate commission and the seller takes the risks. As shown in the table below, if the direct cost of the auction is \$400 for the above example, the gross margins are 73% for outright purchase, versus 50% for straight commission.

Contract Type	Terms	Sales Price	Revenues	Direct Costs	Gross Margins
Straight Commission	8% of sales price	\$10,000	\$800	\$400	50%
Financial Guarantee	Guarantee \$7,200, Hodgins makes the next \$800 and 30% for proceeds above \$8,000	\$10,000	\$1,400	\$400	71%
Outright Purchase	Outright purchase for \$8,500	\$10,000	\$1,500	\$400	73%

Historically, we believe Hodgins has conducted auctions mostly on straight commissions, which has generated relatively stable average commission rates over the past few years as shown in the table below. Currently, approximately 75% of Hodgins' auctions (including both onsite and online) are still conducted on a straight commission basis. We note both revenues and average commission rates in 2003 were below average, which we believe was primarily due to the bovine spongiform encephalopathy (BSE) case which negatively affected the entire agriculture industry in Canada; in 2003, the agricultural industry generated their lowest cash receipts in 3 years (cash receipts measure the revenues generated by the agriculture industry).

	2003	2004	2005	2006	2007	2008 9 mo	2007 9 mo
Gross Auction Sales (million C\$)	35	44	46	43	53	35	48
Commission Revenues (million C\$)	2.20	3.38	3.50	3.23	4.12	2.89	3.60
Average Commission Rate	6.3%	7.7%	7.6%	7.5%	7.8%	8.2%	7.5%

In light of higher gross margin potential from bought deals, which occur more often for the auction of larger construction and industrial equipment, the company plans to increase its presence in these markets. The company's strategy is discussed in the following sections.

**Highly  
Competitive  
Space for  
Agricultural  
Equipment  
Auctions**

Auctioneers in Canada are largely fragmented with numerous small to large auction houses. Each auctioneer may have a different focus, ranging from fine arts, stamps, automobiles, to industrial equipment. In this regard, Hodgins is in the niche market for agriculture and industrial/construction related properties and equipment in western Canada. Management has told us that agriculture related auctions (farmland, farmland equipment) still accounts for more revenue than those from industrial related auctions. The company's industrial related auctions are largely focused on construction equipment, with a smaller portion from manufacturing equipment.

Given the company's current business model, we think the company operates in a highly competitive environment. Competition comes first from other auctioneers who focus on agricultural and industrial equipment such as industry leader Ritchie Bros. Auctioneers (TSX: RBA). There are also a number of on line auction sites that offer auction services for farmland and industrial equipment, which we believe directly competes with the company's online only auction services. On top of these factors, buyers have many options for buying equipment such as purchasing directly from original equipment manufacturers, equipment dealers/brokers/distributors, and from online or print/classifieds.

In light of the many options for buyers, we believe Hodgins present two major strengths:

- Hodgins provides a full range of auction services such as marketing campaigns for its onsite live auctions, which has the potential to realize higher proceeds for sellers. These services are also provided by other onsite auctioneers, but not on the same scale, or not available, for online only auctioneers or classified advertisements.
- Hodgins Auctioneers is a recognized niche brand, which attracts and retains certain groups of buyers and sellers that require the many services. This is indicated by relatively stable historical revenues. The company currently has a database of about 100,000 motivated and qualified buyers from across Canada and the U.S. According to management, the company also has many equipment dealers as recurring buyers. In addition, we believe the company's online only auction can also utilize the brand synergy from the company's established onsite auction services to attract and retain additional customers. This is an advantage over other online only auctioneers, which do not have an established history of onsite auctions.

***Higher Profit Margins in Auctions of Industrial and Construction Equipment***

Although accounting for a smaller portion of the company's auction activities, we believe auctions of industrial and construction equipment is larger in size in term of average gross revenues per auction, and more importantly, generates higher profit margins, compared to auctions of agricultural equipment. The following table shows that Ritchie Brothers (TSX: RBA) and WWA Group Inc. (OTCBB: WWAG), which generate significant revenues from auctions of industrial and construction equipment, have been able to generate higher gross margins than Hodgins. Particularly, RBA, the industry leader for large industrial and construction equipment, posted high gross margins of approximately 85% over the past 6 years, compared to about 50% for Hodgins.

<b>Gross Margins</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
RBA	86.3%	87.1%	87.3%	84.3%	85.1%	86.0%
WWAG	n/a	60.3%	59.3%	61.1%	56.9%	60.7%
HA	55.6%	51.5%	46.5%	46.3%	53.8%	52.5%

\* Gross Margins for Hodgins under 2008, are for the 9 months ended September 2008

\* Gross Margins for WWAG is for the company's commission and service segment

We believe the fact that auctions of industrial and construction equipment generally have higher gross margins than auctions of agricultural equipment are primarily due to:

- There is a higher percentage of bought deals in the auctions of large construction and industrial equipment. As discussed earlier, the bought deal has the upside potential to realize higher gross margins compared to auctions based on a straight commission basis
- Industrial and construction equipment are often auctioned by a few large players, who are able to charge higher commission in contrast to many smaller auctioneers that compete with each other for smaller and easier to handle auctions.
- The value of industrial and construction equipment is considerably higher than agricultural equipment. At the same commission rate, this allows an industrial and construction equipment auction to earn higher commission revenues compared to

those earned by lower valued agricultural equipment auctions. Assuming the industrial and agricultural auctions have the same direct costs (i.e., site set up, marketing campaign), the auctions of industrial and construction equipment will result in high gross margins.

### ***Growth Strategies***

Historically, the company has been able to generate sufficient cash flows from its operations to fund its activities, and revenues have not seen significant growth since it went public. However, at this time, we have a positive outlook on the company's future growth based on the following grounds:

- **Growth potential in Alberta and Manitoba:** Based on our discussion with management, over 70% of the company revenues are currently derived from markets in Saskatchewan. It is the company's objective to increase its presence in Alberta and Manitoba. In particular, HA targets increasing sales from Alberta first, as one of its near term growth strategies.
- **Growth from the online automobile auction platform:** According to management, the company expects to generate revenues from this project as early as 2010 (in which year we believe automobile markets will recover to certain degrees from the current lows). In addition, management has informed us that the capital cost is relatively low to fully implement this project.
- **Increasing the number of bought deals:** Based on our discussion with management, the company has a clear objective of increasing the number of bought deals as it generates higher profit margins.
- **Increasing their presence in auctions of Industrial and construction equipment:** In light of higher revenues and profit margins, the company also targets expanding its presence in the auctions of industrial and construction equipment.
- **Expected increasing revenues from online auction platforms:** We believe online only auctions (as well as the online automobile auction platform) generate higher gross margins than traditional onsite live auctions and we see this just by looking at eBay's (NASDAQ: EBAY) gross margins which have averaged about 77% over the past three years. We also think the original online only auctions will generate increasing revenues in the future, in addition to revenue potential from the online automobile auction platform currently underdevelopment. This is expected to have a positive impact on the company's net margins.
- **Acquisitions:** The company plans to supplement its growth by making acquisitions. So far, the company has made a few small acquisitions since it went public including Champion Auctions Ltd. in October 2008.

**Capitalization is Key to Future Growth:** As discussed earlier, HA's operations have historically been self-funding. HA has not conducted a major equity financing since 2005. However, we think HA will have to raise additional capital in order to implement the growth strategies above. Capital is needed to enter new markets, make acquisitions, and grow its sales and marketing force in new markets. Simply implementing the plan to engage more bought deals will require the company to be better capitalized as purchasing equipment outright is likely to require a certain amount of cash on hand. We note that current market conditions are likely to present difficulties for the company in raising funds, which may delay the company's growth plans.



***Outlook on the  
Canadian  
Agriculture  
Industry***

In general, we believe a favourable agriculture industry would result in more transactions for agricultural equipment. This would generate more auction activity for Hodgins, and more commission revenue, because the equipment is likely to be sold at higher prices in strong economic conditions. On the other hand, a slowing agriculture market would reduce the company's auction activities, but the number of insolvency and liquidation related auctions may increase which could partially offset the risks of a down market which we are in right now.

**Long Term Outlook:** The agriculture industry has experienced high growth worldwide since early 2000, due to global population growth and the rising use of biofuels. In the long run, we have a positive outlook for the Canadian agriculture industry due to:

- Farmers of the baby boomer generation in Canada will continue to retire well into 2010+, resulting in a change of ownership of farmland and farmland equipment from these group of farmers.
- Strong global population growth (from 6.9 billion in 2010E, to 9.5 billion in 2050E, according to U.S. Census Bureau).
- Increase in the use of biofuels. The Food and Agriculture Organization (FAO) forecasts a 22% increase in the use of cereals for the production of biofuels, to 104 million tones, or 4% of world production in 2009, compared to 2008.

**Short Term Outlook:** At this time, we believe the current global economic crisis will considerably reduce the company's auction activities and commission revenues in 2009 (i.e., reduced number and average gross sales per auction). According to Agriculture and Agri-Food Canada, crop prices are expected to decrease in 2009, reflecting current economic conditions. This has the net effect of reducing the country's total market receipts from the Agriculture industry by 2% to \$40.7 billion (which is still 26% above the 2003-07 average in which period the agriculture industry was booming). Particularly, total crop cash receipts are forecast to decline by 5% to \$22.2 billion (while still remaining 50% above the 2003-07 average), as a result of expected price declines for all major grain and oilseed crops, but mitigated by stronger crop production in 2009, compared to 2008. The expected decline in cash receipts from crops in 2009, is expected to be partly offset by a slight increase in total livestock cash receipts to \$18.5 billion, due to improved prices for cattle and hogs.

In Western Canada where the company operates, only Manitoba is expected to record a gain in market receipts in 2009. Market receipts for Saskatchewan and Alberta are forecast to decline 6.0% and 3.4% in 2009, respectively.

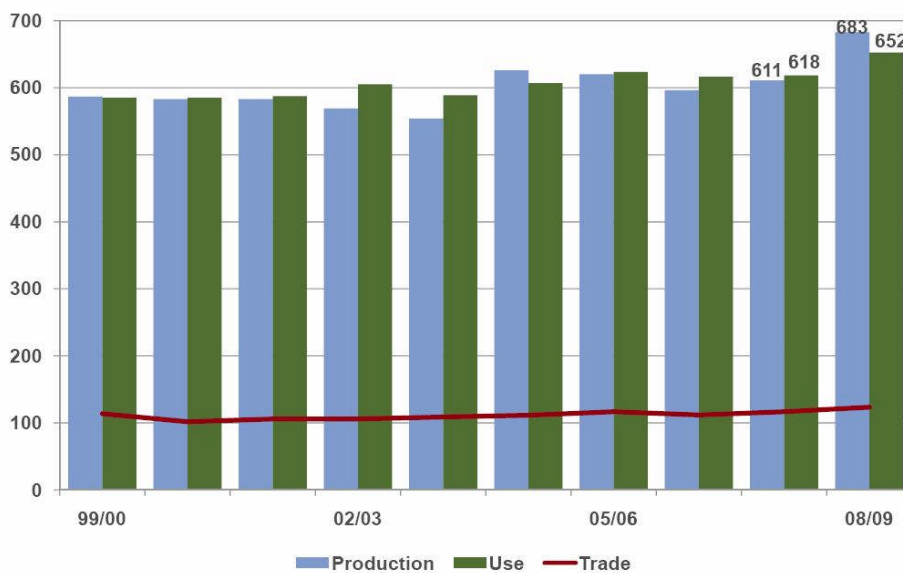
	Average 2003-07 \$ Million	2007 \$ Million	2008 \$ Million	2009E \$ Million	% Change
<b>Saskatchewan</b>					
Crop Receipts	3,576.50	5,085.70	7,306.20	6,835.70	-6.4%
Livestock Receipts	1,596.60	1,675.90	1,597.70	1,537.90	-3.7%
<b>Total Market Receipts</b>	<b>5,173.10</b>	<b>6,761.70</b>	<b>8,903.90</b>	<b>8,373.60</b>	<b>-6.0%</b>
<b>Manitoba</b>					
Crop Receipts	1,653.40	2,175.60	2,801.90	2,780.90	-0.7%
Livestock Receipts	1,690.40	1,725.70	1,582.20	1,679.20	6.1%
<b>Total Market Receipts</b>	<b>3,343.80</b>	<b>3,901.30</b>	<b>4,384.10</b>	<b>4,460.10</b>	<b>1.7%</b>
<b>Alberta</b>					
Crop Receipts	2,637.30	3,473.50	4,672.30	4,275.50	-8.5%
Livestock Receipts	4,112.60	4,367.30	4,304.60	4,392.40	2.0%
<b>Total Market Receipts</b>	<b>6,749.90</b>	<b>7,840.90</b>	<b>8,976.80</b>	<b>8,667.90</b>	<b>-3.4%</b>

Source: Statistics Canada, Agriculture and Agri-Food Canada

**Global Wheat  
Production  
Forecast to  
Increase**

Despite an expected slowdown in the agriculture industry in Canada for 2009, one positive note is the expected increase in production and price for wheat in 2009. Wheat is one of the most important crops, and also accounts for the most value in food exports in Saskatchewan (food exports including farm products, and processed beverage and food products and wheat accounted for 10.13% of the province’s food exports in 2007). According to U.S. Wheat Associates, beginning world wheat stocks for 2009 are at 119 million tons (compared to over 200 millions tons in the first few years of 2000), the lowest level since 1978. This has resulted in the lowest global beginning stock to use ratio since 1995. As shown in the chart below, global production is expected to increase significantly from 611 million tons in 2008, to 683 million tons in 2009.

**Global Wheat Supply vs. Demand**

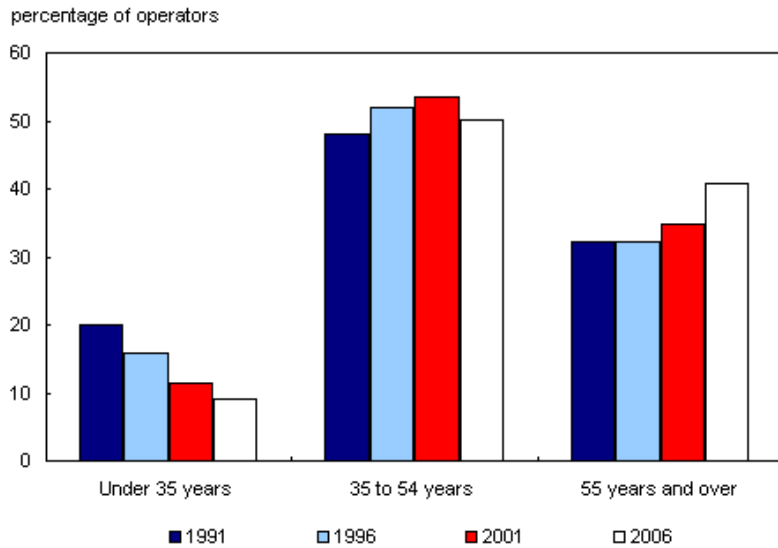


Source: U.S. Wheat Associates

Global production increases are forecast to come from all major producers (except for Argentina due to lower plantings and dry conditions), including the E.U., China, the U.S., Canada, Black Sea, India, and Australia. Wheat production from Canada is expected to increase from 20 million tons in 2008, to 29 million tons in 2009, with exports expected to increase from 16 million tons to 19 millions tons. Wheat exports to the U.S., Saskatchewan's largest customer of agricultural products, are also expected to increase in 2009. According to United States Department of Agriculture (USDA), wheat price received by producers is also projected to stay strong between US\$6.70 to US\$6.90 per bushel in 2009.

**Retiring  
Farmers Set to  
Increase Farm  
Equipemnt  
Transations**

**Aging Farmers:** The following chart shows Canadian farmers are getting older. According to Statistic Canada, farmers under 35 years of age have decreased from about 20% of total farmers in 1991, to below 10% in 2006, whereas farmers over 55 years old have increased from about 30% to 40% during the same period. Between 2001 and 2006, 55-and-over farmers increased by 10.2% to 132,975, which reflects the baby-boom generation aged over 55 years. In 2006, the average age of Candian farmers was 52 years (52.6 for Saskatchewan), and the 55-and-over farmers represented 40.7% of total farmers in Canada.



Source: Statistics Canada, Census of Agriculture, 1991 to 2006

As the baby boomers age and retire, the total number of farmers in Canada decreased from 346,200 to 327,060 during the period 2001 – 2006, whereas the Canadian population increased during the same period from 30 million to 31 million. As shown in the table below, in Saskatchewan, the farm population also decreased from 124,385 in 2001, to 111,605 in 2006, and the number of farms decreased from 50,598 to 44,329 during the same period.

<b>Saskatchewan</b>	<b>2006</b>	<b>2001</b>
Total Population	968,155	963,150
Farm Population	111,605	124,385
Number of Farms	44,329	50,598

Source: Government of Saskatchewan

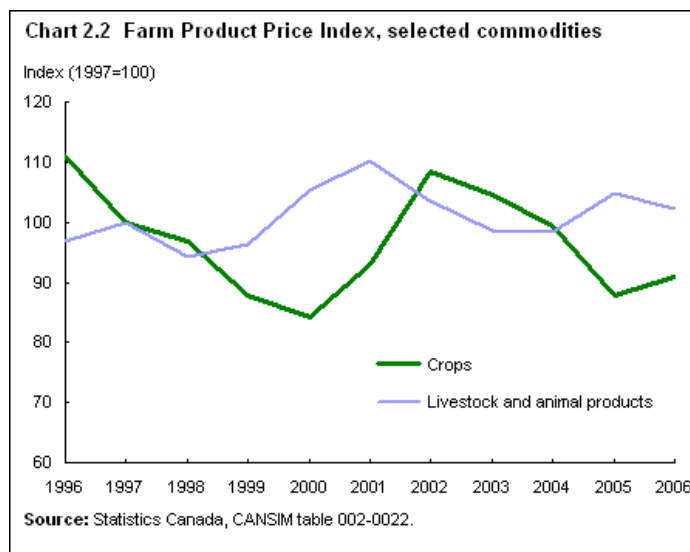
We continue to believe the number of farmers in Canada will decrease well into the next decade as baby boomers retire. In multiple generation farms, retiring baby boomers will transfer their assets and debt to their children (who may choose to leave the farm). This requires careful succession planning. In single generation farms, retiring farmers have little choice but to sell their farms. This environment is favorable to Hodgins as farm assets are expected to change hands or be liquidated as farmers retire.

***Canadian  
Construction  
Sector  
Expected to  
Contract in  
2009***

As discussed above, the company also provides auction services for industrial (primarily construction) equipment. At this time, we believe Hodgins will be negatively affected by the economic crisis, which could be partially offset by an increase in insolvency related auctions for industrial and construction equipment. According to Reed Construction Data (which has taken into account the Canadian federal government's approximately \$10 billion in annual stimulus in 2009 and 2010; to be spent primarily on institutional and engineering construction), construction industry investment is forecast to decline 1.7% in 2009, and grow 6.4% in 2010, compared to growth of 5.0% in 2007.

***Agriculture  
Industry in  
Saskatchewan***

This section presents an overview of the agriculture industry in Saskatchewan, since the province still generates the most business for the company. Essentially, Saskatchewan is the country's most important provider of agriculture products, which has almost half of Canada's total cultivated farmland. The agriculture industry is also among the most important industries within the province, accounting for about 10% of the province's GDP in 2007. According to the Government of Saskatchewan, crop production in the province has increased to 29.76 million tonnes in 2008, compared to an average annual production of 24.42 million tonnes during 2003 – 2007. Overall, total cash receipts in the province have increased to \$7,632.2 million in 2007, compared to an average of \$6,187.3 million during 2002 – 2006. During the same period, farm cash receipts for Canada have also increased from \$36.24 million in 2001, to \$40.69 million in 2007. However, we note the increase in cash receipts in Canada in the past years was more the result of increased production than an increase crop prices. As indicated by Statistic Canada's farm product price index below, crop prices only started to rise about 2004, in association with the recent boom in the agriculture industry.



Saskatchewan is a very important exporter of agriculture products (both crop and livestock). During 2003 – 2007, the average value of agriculture products exported from the province was \$4,481.52 million, compared to \$259.80 million in imports during the same period. The U.S. is the most important customer of agriculture products, and has imported an average \$1,025.48 million per year or 22.9% worth of the province’s total agriculture exports during 2003 – 2007. The following table summarizes top importers of the province’s agriculture products.

<b>Agricultural Exports (2003- 2007 Average)</b>		
	<b>\$ Million</b>	<b>Percentage</b>
Total Global Exports	4,481.52	100%
The U.S.	1,025.48	22.9%
European Community (27)	590.59	13.2%
Japan	533.29	11.9%
Mexico	301.40	6.7%
India	202.62	4.5%

Source: Government of Saskatchewan

**Conclusion** Overall, after reviewing the above points, and from our discussions with management, our industry research indicates that the short term outlook is weak, but expected to be positive in the long run

**Management** We believe the company has a team of experienced auctioneers and supporting staff. The following presents biographies of the company’s key management:

**Barrie Jung, President and Director**

Barrie Jung is a Certified Personal Property Appraiser and a graduate of the Iowa-based Mason City College of Auctioneering. With 20 years of experience in the industry, he offers clients the benefits of his in-depth knowledge of all types of equipment. Along with his responsibilities as auctioneer and appraiser, Barrie is active in the administration and

organization of all auctions. Barrie has served as President and on the Board of Directors for both the Saskatchewan Auctioneers Association and the Auctioneers Association of Canada.

**Grant Hodgins, General Manager**

Grant Hodgins offers clients the benefits of nearly 30 years of experience as an auctioneer and appraiser. He has worked with all types of corporate and individual clients from across Canada and the U.S. Grant is a graduate auctioneer of the Reisch American College of Auctioneering in Iowa, Grant also holds a Bachelor of Commerce degree from the University of Saskatchewan.

**Gordon D. Anderson, B.Ed.,CFP, CLU, CH, F.C, Director**

Gordon D. Anderson, has over 30 years experience in financial planning, and currently serves as Chief Financial Officer and Secretary of Kristina Capital Corp., President of Freestyle Group., and Chief Executive Officer and President of Silver Net Equities Corp. of Macusani Yellowcake, Inc. Mr. Anderson has also served as Chief Executive Officer and President of Silver Fern Financial Ltd. from January 10, 2005 to May 2007, President of Western Canadian Entertainment Corporation. and has been employed with London Life in a variety of management positions since 1975. He currently owns Anderson & Associates Financial Corp., an estate planning firm associated with London Life, and co-owns Freestyle Holdings Corp., a real estate development company. In addition, Mr. Anderson has extensive public company experience having served on numerous public boards in a variety of industries. He has served as director of many public companies. Mr. Anderson holds a Bachelor of Education degree from the University of Regina in 1975.

**David Willis Farrell, Director**

Mr. Farrell has been President of Farrell Agencies Ltd., a general insurance agent in Yorkton, Saskatchewan since 1974. Mr. Farrell also served as a President of Farrell Auction Services Ltd. from 1974 to 2001. Mr. Farrell also served as a Director of Farrell Auction Services Ltd., from 1974 to 2001., President of the Yorkton Exhibition Association and Director of the Insurance Brokers Association of Saskatchewan.

***Financial  
Analysis***

**Revenues:** The company generates revenues primarily from commission fees on auctions, with additional revenues coming from rentals, and other sources including trucking for customers' equipment. For the first 9 months of 2008 (ended September 2008), the company reported revenues of \$2.98 million, compared to \$3.81 million in the same period in 2007. Commission revenues from auctions were \$2.89 million for the 9 month period ended September 2008 (from gross auction sales of \$35.17 million), compared to \$3.60 million in the same period in 2007 (from gross action sales of \$48.24 million). Revenues were down primarily due to a lower number of auctions (85 in 2008 versus 95 in 2007 for the first 9 months of the respective years) and smaller sizes for each auction (average gross sales of \$0.41 million per auction in 2008, versus \$0.51 million in 2007, for the first 9 months of the respective years). However, commission revenues as a percentage of gross auction sales increased from 7.4% in 2007, to 8.2% in 2008 for the first 9 months of the respective years (historically the percentage was primarily between 7.5% and 8%).

The company has been able to generate stable revenues since it went public in 2004. Based on our discussion with management, strong revenues in 2007 were the result of a few very large auctions, which the company does not expect to recur in the future. **We expect an average year for 2008, and forecast total revenues of \$3.45 million in 2008 (\$3.33 million from commission revenues). In light of the current economic crisis and expected downturn in the country's agriculture industry, we think auction activity will be considerably lower in 2009 (i.e., reduced number and average gross sales per auction). In 2009, we forecast total revenues of \$3.16 million (\$3.02 million from commission revenues).** We note insolvency related auctions from both agriculture and industrial equipment may rise in 2009, from the distressed financial situation of individuals and companies.

**Margins:** The following table summarizes the company's margins along with our forecasts. Gross margins were 52.5% in the first 9 months of 2008, compared to 55.3% in the same period of 2007. As shown in the table below, the company's gross margins were relatively stable. Our forecasts for gross margins are 52.5% and 50.7% in 2008 and 2009, respectively.

<b>Margins</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
Gross Margin	55.6%	51.5%	46.5%	46.3%	53.8%	52.5%	50.7%
EBITDA Margin	4.3%	10.2%	4.7%	-0.7%	12.5%	3.6%	1.8%
EBIT Margins	2.8%	8.9%	2.7%	-2.8%	10.3%	1.3%	-0.7%
EBT Margin	-0.2%	7.1%	1.8%	-5.6%	9.3%	-0.2%	-2.1%
Net Margin	-0.2%	5.6%	1.1%	-5.6%	11.4%	-0.1%	-1.4%

All other margins have decreased during the first 9 months of 2008, compared to those of 2007. We believe this is primarily due to significantly lower revenues, in addition to slightly increased G&A and interest expenses for the 9 month period of 2008, compared to the same period of 2007.

**Earnings:** The company posted net income of \$0.135 million for the first 9 months of 2008 (EPS: \$0.02), compared to \$0.722 million for the same period of 2007 (EPS: \$0.07). Note, Q4 is a very slow auction season, the company only had 4 onsite auctions in Q4 2007, out of a total of 99 conducted in the entire year. **Overall, we forecast a net loss of \$0.005 million (EPS: -\$0.00) in 2008, and a net loss of \$0.043 million (EPS: -0.00) in 2009.**

**Cash Flows, Capital Structure:** In the 9-month period ended September 2008, the company generated \$1.15 million from operations, and spent \$0.05 million in investing activities (on property and equipment). At the end of September 2008, the company had total debt of \$0.389 million (the debts are various commercial loans to finance the purchases of property and equipment). Historically, cash flows from operations have been sufficient to fund the company's activities, and we believe they will also be sufficient to fund the company's working capital, our estimated total capital expenditures of \$0.107 million (for each of 2008 and 2009), and debt payments (interests plus principal) in 2008 and 2009.

**Liquidity:** As shown in the table below, the company has been able to improve its current ratio and reduce its total debt/asset ratio since 2003. As mentioned earlier, the debt results from the company's commercial loans to finance its ongoing purchases of equipment and

from the company's commercial loans to finance its ongoing purchases of equipment and properties for its operations.

Liquidity (C\$)	2003	2004	2005	2006	2007	2008E	2009E
Cash	0.256	0.379	0.469	0.107	0.001	0.233	0.074
Working Capital	(0.691)	(0.008)	0.002	(0.185)	0.216	0.156	(0.019)
Current Ratio	0.388	0.983	1.002	0.631	1.607	1.342	0.956
Total Debt	0.766	0.416	0.439	0.401	0.436	0.378	0.274
Debt/Asset	83.9%	38.4%	31.0%	41.7%	32.8%	28.0%	23.1%

## Valuation

As shown in the table below, our discounted cash flow model (DCF) gave a fair value on the company of \$0.31 per share.

Hodgins Auctioneers Inc - DCF Valuation												
(Million C\$)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal
Net Income	(0.005)	(0.043)	0.010	0.080	0.148	0.217	0.286	0.332	0.380	0.431	0.484	0.539
Non Cash Charges	0.079	0.078	0.090	0.091	0.092	0.093	0.094	0.095	0.095	0.096	0.096	0.097
Funds from Operations	0.074	0.035	0.099	0.171	0.240	0.310	0.380	0.426	0.475	0.526	0.580	0.636
Investment in W/C	0.281	0.016	(0.004)	(0.011)	(0.010)	(0.010)	(0.011)	(0.004)	(0.004)	(0.004)	(0.004)	(0.005)
Cash From Operations	0.354	0.051	0.095	0.160	0.230	0.299	0.368	0.422	0.471	0.522	0.575	0.631
Capex	0.107	0.107	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100
Free Cash Flow	0.248	(0.055)	(0.005)	0.060	0.130	0.199	0.268	0.322	0.371	0.422	0.475	0.531
PV	0.248	(0.049)	(0.004)	0.043	0.083	0.113	0.136	0.146	0.150	0.152	0.153	1.900
Discount Rate	12%											
Terminal Growth	3%											
Firm PV	3.070											
Cash (Beg. of Year)	0.001											
LT Debt (Beg. Of Year)	0.436											
PV Equity	2.635											
Shares O/S (in Millions)	8.599											
<b>DCF Value/Share</b>	<b>0.31</b>											

### Notes to Valuation Model:

Although we think the company has growth prospects as discussed earlier, our DCF model did not take account of potential revenue and earnings additions from these growth areas such as the online automobile auction platform. Hodgins has been a self-sustainable operation since it went public in 2004, with relatively stable revenues and sufficient cash flows from operations to fund its activities. However, at this time, we would like to see growth in term of revenue and profit margins from its current plans. For conservatism, our model essentially valued the company assuming it continues to operate as it did historically, but with the following two assumptions:

- Revenue growth of 4% per annum from 2011+ (which is close to average real Canadian GDP growth for the past 30 years).
- We have assumed the company is able to gradually improve its gross margins from an estimated 50.7% in 2009, to 55% by 2014+, as we expect revenues to increase from growth initiatives, with higher gross margins.

We believe our DCF model is conservative. However, we will revise the model when we see the company's strategies transfer to revenues growth and improvement on profit margins.



***Conclusions & Rating***      **Based on our valuation model, we initiate coverage of Hodgins Auctioneers with a BUY rating and fair value estimate of \$0.31 per share. Since Hodgins has shown relatively stable performance historically, we rate the company a RISK of 3 (Average).**

- Risks***
- The company operates in a highly competitive industry, which subjects the company to price competition.
  - The company's expansion plan is likely to require additional capital, which is difficult to raise in current market conditions.
  - The company's business is highly seasonal, and largely dependent on the spring auction season.
  - The company's business is subject to the economic downturn, but the risk may be partially offset by an increase in insolvency related auctions.

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

	2003	2004	2005	2006	2007	2008E	2009E
Revenues							
Auction revenues	2.20	3.38	3.50	3.23	4.12	3.33	3.02
Rental income	0.10	0.10	0.10	0.08	0.11	0.06	0.09
Other income	0.09	0.05	0.01	0.03	0.02	0.05	0.04
	<b>2.39</b>	<b>3.53</b>	<b>3.61</b>	<b>3.34</b>	<b>4.26</b>	<b>3.45</b>	<b>3.16</b>
Direct Costs	1.06	1.71	1.93	1.79	1.97	1.64	1.56
<b>Gross Margin</b>	<b>1.33</b>	<b>1.82</b>	<b>1.68</b>	<b>1.55</b>	<b>2.29</b>	<b>1.81</b>	<b>1.60</b>
G&A	1.22	1.38	1.50	1.57	1.76	1.69	1.55
Stock Based Compensation	-	0.08	0.01	0.00	-	-	-
<b>EBITDA</b>	<b>0.10</b>	<b>0.36</b>	<b>0.17</b>	<b>(0.02)</b>	<b>0.53</b>	<b>0.12</b>	<b>0.06</b>
Amortization	0.04	0.05	0.07	0.07	0.09	0.08	0.08
<b>EBIT</b>	<b>0.07</b>	<b>0.31</b>	<b>0.10</b>	<b>(0.10)</b>	<b>0.44</b>	<b>0.04</b>	<b>(0.02)</b>
Interest	0.07	0.06	0.03	0.09	0.04	0.05	0.05
<b>EBT</b>	<b>(0.01)</b>	<b>0.25</b>	<b>0.07</b>	<b>(0.19)</b>	<b>0.40</b>	<b>(0.01)</b>	<b>(0.07)</b>
Tax	-	0.05	0.03	-	(0.09)	(0.00)	(0.02)
<b>Net Income</b>	<b>(0.006)</b>	<b>0.198</b>	<b>0.040</b>	<b>(0.186)</b>	<b>0.487</b>	<b>(0.005)</b>	<b>(0.043)</b>
EPS	n/a	0.04	0.00	(0.02)	0.04	(0.00)	(0.00)

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

	2003	2004	2005	2006	2007	2008E	2009E
<b>ASSETS</b>							
Cash And Equivalents	0.256	0.379	0.469	0.107	0.001	0.233	0.074
Accounts Receivable	0.152	0.037	0.233	0.128	0.326	0.175	0.16
Inventory	0.03	0.038	0.031	0.033	0.196	0.164	0.151
Prepaid Exp.	-	-	0.028	0.048	0.049	0.039	0.035
<b>Total Current Assets</b>	<b>0.438</b>	<b>0.454</b>	<b>0.761</b>	<b>0.316</b>	<b>0.572</b>	<b>0.611</b>	<b>0.42</b>
Net Property, Plant & Equipment	0.476	0.628	0.656	0.646	0.755	0.741	0.769
<b>Total Assets</b>	<b>0.913</b>	<b>1.082</b>	<b>1.416</b>	<b>0.962</b>	<b>1.328</b>	<b>1.351</b>	<b>1.189</b>
<b>LIABILITIES</b>							
Bank Indebtedness				0.106			
Accounts Payable	0.32	0.29	0.524	0.159	0.223	0.31	0.294
Due to Shareholders	0.042	0.042	0.042	0.042	0.042	0.04	0.04
Curr. Port. of LT Debt	0.766	0.075	0.112	0.08	0.092	0.104	0.104
Curr. Income Taxes Payable	-	0.054	0.08	0.114	-	-	-
<b>Total Current Liabilities</b>	<b>1.129</b>	<b>0.462</b>	<b>0.759</b>	<b>0.501</b>	<b>0.356</b>	<b>0.455</b>	<b>0.44</b>
Long-Term Debt	-	0.341	0.327	0.321	0.344	0.274	0.171
<b>Total Liabilities</b>	<b>1.129</b>	<b>0.802</b>	<b>1.085</b>	<b>0.822</b>	<b>0.701</b>	<b>0.729</b>	<b>0.61</b>
Common Stock	0.0	0.215	0.234	0.234	0.234	0.234	0.234
Additional Paid In Capital	-	0.081	0.074	0.07	0.07	0.07	0.07
Retained Earnings	(0.215)	(0.017)	0.023	(0.163)	0.324	0.319	0.275
<b>Total Shareholder's Equity</b>	<b>(0.215)</b>	<b>0.279</b>	<b>0.331</b>	<b>0.14</b>	<b>0.627</b>	<b>0.622</b>	<b>0.579</b>
<b>Total Liability and Equity</b>	<b>0.913</b>	<b>1.082</b>	<b>1.416</b>	<b>0.962</b>	<b>1.328</b>	<b>1.351</b>	<b>1.189</b>

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

	2003	2004	2005	2006	2007	2008E	2009E
Net Income	(0.006)	0.198	0.0398	(0.186)	0.487	(0.005)	(0.043)
Depreciation & Amort.	0.037	0.048	0.073	0.071	0.091	0.079	0.078
(Gain) Loss From Sale Of Assets	-	(0.013)	(0.006)	-	-	-	-
Stock-Based Compensation	-	0.081	0.009	0.002	-	-	-
	<b>0.032</b>	<b>0.314</b>	<b>0.116</b>	<b>(0.112)</b>	<b>0.578</b>	<b>0.074</b>	<b>0.035</b>
Change in Acc. Receivable	(0.058)	0.137	(0.196)	0.105	(0.197)	0.151	0.014
Change In Inventories	0.0195	(0.007)	0.007	(0.002)	(0.164)	0.032	0.014
Change in Acc. Payable	(0.431)	(0.066)	0.254	(0.365)	0.063	0.087	(0.015)
Change in Inc. Taxes	-	0.054	0.026	0.034	(0.114)	-	-
Change in Other Net Operating Assets	-	-	(0.028)	(0.02)	(0.001)	0.01	0.003
<b>Cash from Operations</b>	<b>(0.437)</b>	<b>0.433</b>	<b>0.179</b>	<b>(0.36)</b>	<b>0.165</b>	<b>0.354</b>	<b>0.051</b>
Capital Expenditure	(0.006)	(0.21)	(0.121)	(0.062)	(0.21)	(0.107)	(0.107)
Sale of Property, Plant, and Equipment	-	0.023	0.026	-	0.01	0.042	-
<b>Cash from Investing</b>	<b>(0.006)</b>	<b>(0.187)</b>	<b>(0.095)</b>	<b>(0.062)</b>	<b>(0.2)</b>	<b>(0.064)</b>	<b>(0.107)</b>
Debt Issued	0.8	-	0.084	0.031	0.123	0.046	-
Debt Repaid	(0.49)	(0.351)	(0.061)	(0.069)	(0.088)	(0.104)	(0.104)
Issuance of Common Stock	-	0.229	-	-	-	-	-
Repurchase of Common Stock	-	-	(0.017)	(0.007)	-	-	-
Other	-	-	-	-	-	-	-
<b>Cash from Financing</b>	<b>0.31</b>	<b>(0.122)</b>	<b>0.006</b>	<b>(0.045)</b>	<b>0.035</b>	<b>(0.058)</b>	<b>(0.104)</b>
<b>Change in Cash</b>	<b>(0.133)</b>	<b>0.124</b>	<b>0.089</b>	<b>(0.467)</b>	<b>0.0</b>	<b>0.232</b>	<b>(0.159)</b>

**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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