

Aton Resources Inc.
(TSXV: AAN)

BUY

Current Price: C\$0.32
Fair Value: C\$0.63
Risk: 5

Targeting Gold Production in Egypt by 2026 – Resuming Coverage

Sector: Junior Resource

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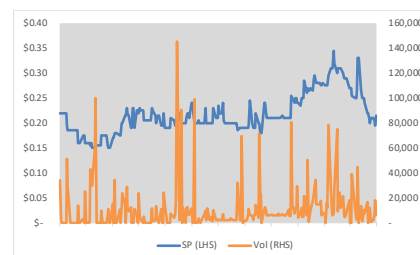
Highlights

- We are resuming coverage on Aton Resources. Aton is advancing multiple gold projects in Egypt's Arabian Nubian Shield (ANS). Egypt is a **vastly underexplored** geologically rich country.
- Management's strategy involves implementing a **hub-and-spoke approach**, supported by a central processing plant, managing ore from multiple projects.
- Two **institutional investors own 86%** of Aton's equity, which we believe signifies a strong vote of confidence in Aton's portfolio.
- Aton's portfolio consists of 12 projects at various stages, with **NI 43-101 compliant resources totaling 0.83 Moz AuEq** across two projects (Hamama and Abu Marawat). In addition, we are assigning **speculative estimates totaling 0.65 Moz AuEq** for two additional projects (Semna and Rodruin).
- Aton's projects host Volcanogenic Massive Sulfide (VMS)-epithermal hybrid mineralization. VMS deposits commonly occur in clusters (1-20 Mt), and individual deposits, when combined, have **potential to form mining districts/camps**.
- In early 2024, the company received a **20-year mining permit** for Hamama and Rodruin. Management's near-term goal is advancing Hamama West to production by 2026. We anticipate a relatively small 15 Koz - 20 Koz per year operation.
- The company is also aiming to complete **maiden resource estimates** for Rodruin, and Semna, in 2025.
- Gold has **surpassed US\$2,400/oz** for the first time, and is currently trading at record highs. We are more bullish on gold stocks than the metal itself, with gold producer valuations averaging 17% lower compared to the past three instances when gold surpassed \$2k/oz.
- M&A activities in the junior gold sector are on the rise. Recent **transactions in the African gold sector** involved Yintai Gold's (SZSE: 000975) acquisition of Osino Resources (TSXV: OSI/gold in Namibia) for \$368M, Silvercorp Metals's (TSX: SVM) acquisition of Orecorp (gold in Tanzania) for \$186M, and Zhaojin Mining's (SEHK: 1818) acquisition of Tietto Minerals (ASX: TIE/a brand new gold producer in Côte d'Ivoire) for \$422M. **We estimate an average price of \$82/oz for these deals. AAN is currently trading at \$29/oz.**
- **Upcoming catalysts** include drilling, and economic studies on Hamama West.

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Head of Research

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Price Performance (1-year)



	YTD	12M
AAN	52%	100%
TSXV	9%	-1%

Company Data

52 Week Range	\$0.15 – \$0.35
Shares O/S	127M
Market Cap.	\$41M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	N/A

Key Financial Data (FYE - Dec 31)
(C\$)

	2022	2023
Cash	\$116,551	\$453,283
Working Capital	-\$7,702,256	-\$10,227,675
Total Assets	\$687,952	\$824,691
Net Income (Loss)	-\$8,562,826	-\$9,942,793
EPS	-\$0.17	-\$0.16

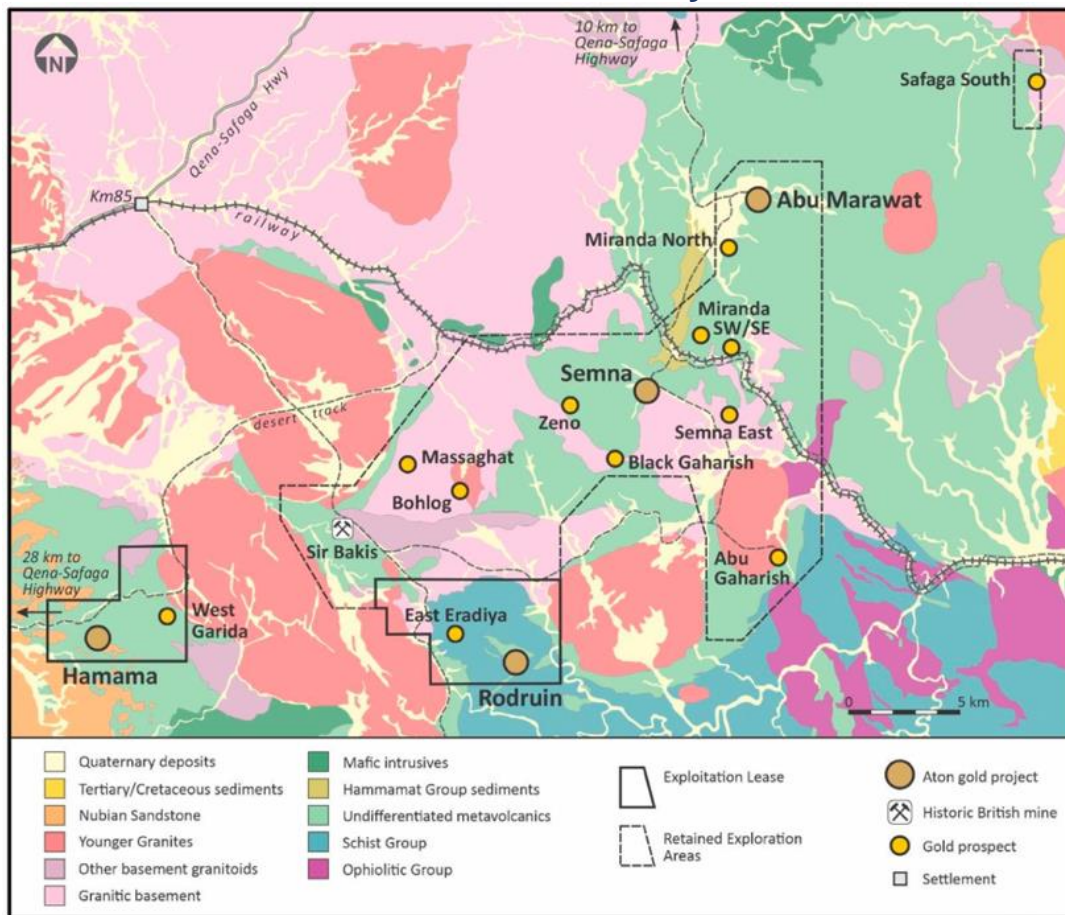
*Current Cash - \$1M / Debt - \$3.5M

*See last page for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

Portfolio Summary

Located 200 km north of Centamin's (LSE: CEY) Sukari gold mine – Egypt's first and only large-scale gold mine

Established infrastructure with access to power, water, highways, and a seaport



Source: Company

12 projects at various stages

NI 43-101 compliant resources totaling 0.83 Moz AuEq across two projects (Hamama and Abu Marawat)

In addition, we are assigning speculative estimates totaling 0.65 Moz AuEq for two additional projects (Semna and Rodruin)

Permit	Prospects	Stage / NI 43-101 Compliant Resources	FRC's Speculative Estimates
Abu Marawat Exploitation License (AMXL)	Hamama	Resource (0.48 Moz AuEq)	
	Rodruin	Pre-resource	Oxide Resources: 0.20 Moz AuEq
Retained Exploration Area (REA)	Abu Marawat	Resource (0.35 Moz AuEq)	
	Semna	Pre-resource	0.45 Moz Au
	Sir Bakis	Pre-resource	
	Zeno	Pre-resource	
	Abu Gaharish	Pre-resource	
	Bohlog	Pre-resource	
	Safaga South	Pre-resource	
	Massaghat	Pre-resource	
	Miranda	Pre-resource	
	Black Gaharish	Pre-resource	

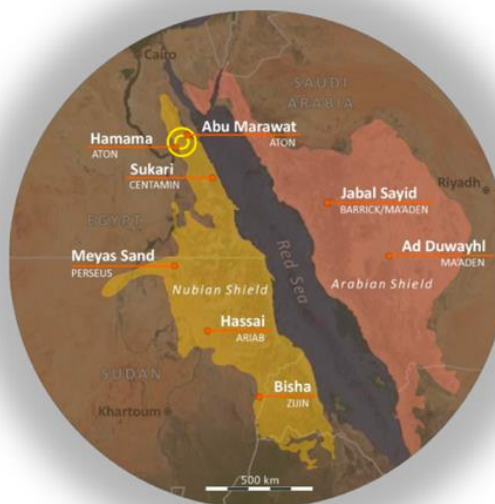
Source: Company/ FRC

Gold in Egypt

Egypt hosts mineral resources such as gold, copper, silver, zinc, phosphate, iron ore, kaolin, and coal. Aton's projects are located in the Arabian Nubian Shield (ANS), which hosts several gold deposits, including Centamin's Sukari gold mine. Operational since 2009, Sukari is a low-cost, open-pit, high-grade operation. **Sukari has produced 5+ Moz, and has 11+ Moz in remaining resources.**

Arabian Nubian Shield

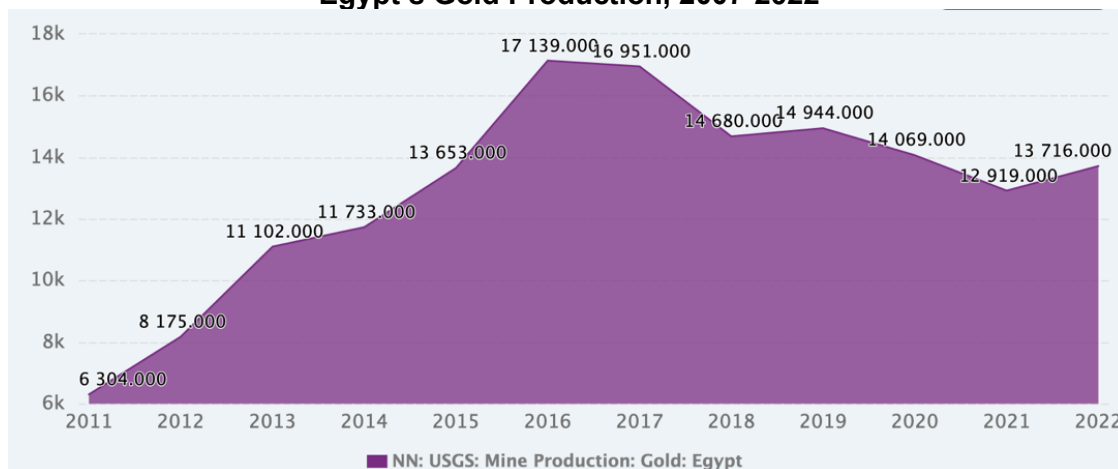
The Arabian Nubian Shield (ANS), spanning Egypt, Sudan, Israel, Saudi Arabia, Eritrea, Jordan, Ethiopia, Somali, and Yemen, is an under-explored prospective gold region



Source: Company

Sukari is the only large-scale operating mine in Egypt, accounting for 90%+ of the country's gold production

Egypt's Gold Production, 2007-2022



*Gold production in kg

Source: USGS / www.ceicdata.com

In 2023, Sukari produced 450 Koz gold, with US\$895/oz in cash costs

Despite its rich mining history, the country has had **limited foreign investments** in gold exploration/development. This can primarily be attributed to the Egyptian government's use of a **production sharing agreement (PSA) model**, which mandates mining companies provide a 50% carried-free interest to the Egyptian General Authority for Mineral Resources (EMRA). However, in 2020, the EMRA launched an international gold bid round for exploration blocks promising more attractive royalties (still pending finalization). This led to major players like Barrick (TSX: ABX) gaining ground near Aton's Abu Marawat Concession.

Abu Marawat Exploitation Lease (AMXL)

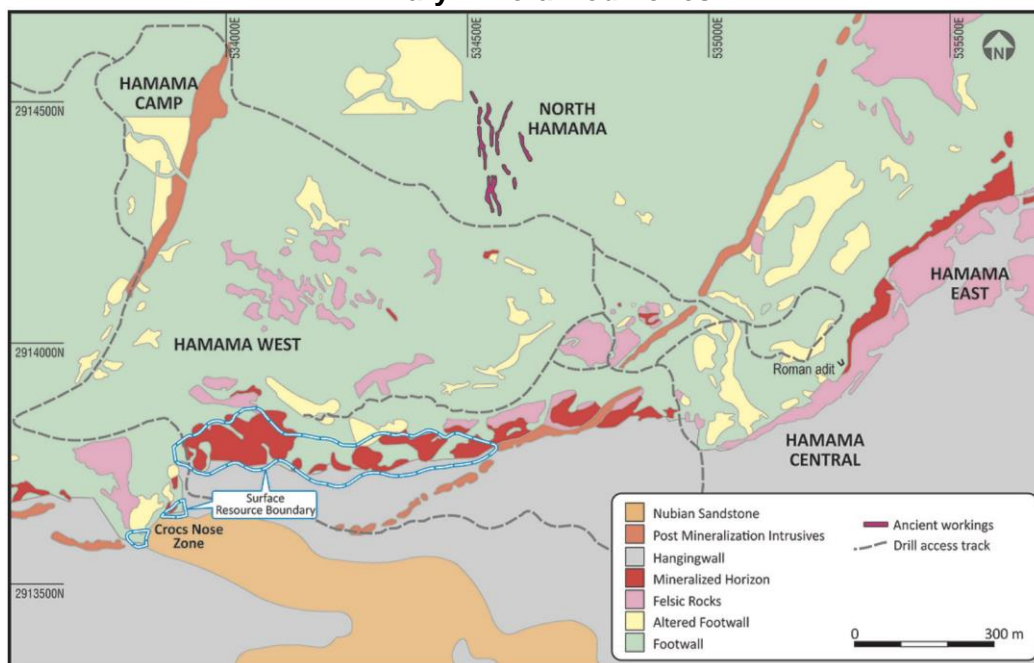
The Abu Marawat Exploitation Lease (AMXL), covering 57.7 km², is comprised of the Hamama and Rodruin projects.

Hamama Gold-Silver-Polymetallic Project

This property exhibits potential for Volcanogenic Massive Sulfide (VMS)-epithermal hybrid mineralization, a deposit type sharing characteristics with well-known deposits within the ANS. Examples include Zijin's (SZE: 601899) Bisha mine in Eritrea, and Ariab Mining Company's Hassai mine in Sudan. We note that VMS deposits commonly occur in clusters, and individual deposits, when combined, have potential to form mining districts/camps.

Aton has identified **three primary zones of mineralization (Hamama West, Hamama Central, and Hamama East)**, extending 3 km along strike.

Primary Mineralized Zones



Source: Company

Operates under a 50:50 PSA model with the EMRA

Aton covers 100% of project advancement costs; initial cash flows from the projects will be used to recoup invested capital, with the remainder split equally

In January 2024, Aton received a 20-year mining permit, potentially renewable for an additional 10 years

Aton is obligated to commence production within four years - a timeline we consider reasonable; if this deadline is not met, Aton will need to either request an extension, or apply for a new permit

Hosts VMS-epithermal mineralization dominated by precious metals

In 2017, Aton **completed a maiden resource estimate** on the Hamama West deposit based on 74 drillholes. Metallurgical tests showed that the oxide component is suitable for heap leach treatment, achieving about **72% gold recovery**, typical for such operations.

Hamama West Resource Estimate (2017)

Table 1: Inferred Mineral Resources at Hamama West

Weathering type	Tonnes	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au (koz)	Ag (koz)	AuEq (koz)
Oxide & Transitional	2,580,000	0.87	28.1	1.28	72	2,334	106
Sulphide	5,630,000	0.87	30.4	1.30	157	5,503	235
Total	8,210,000	0.87	29.7	1.29	230	7,836	341

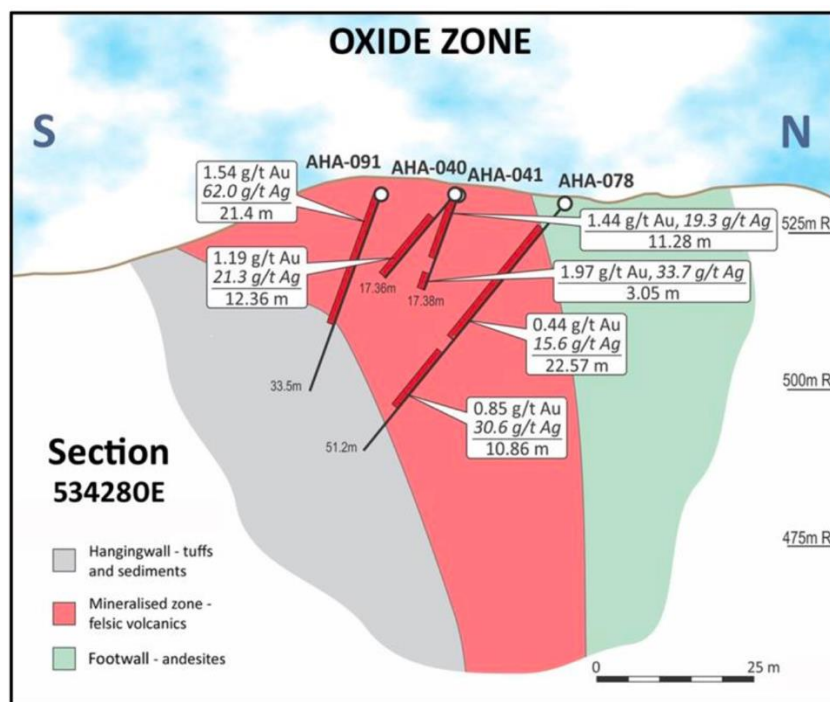
Table 2: Indicated Mineral Resources at Hamama West

Weathering type	Tonnes	Au (g/t)	Ag (g/t)	AuEq (g/t)	Au (koz)	Ag (koz)	AuEq (koz)
Sulphide	3,805,000	0.72	27.6	1.12	88	3,376	137

A small to medium sized resource totaling 0.48 Moz AuEq

The Hamama West deposit measures 675 m long x up to 60 m wide x up to 275 m deep

Oxide mineralization is amenable to heap leach processing, implying relatively low OPEX/CAPEX

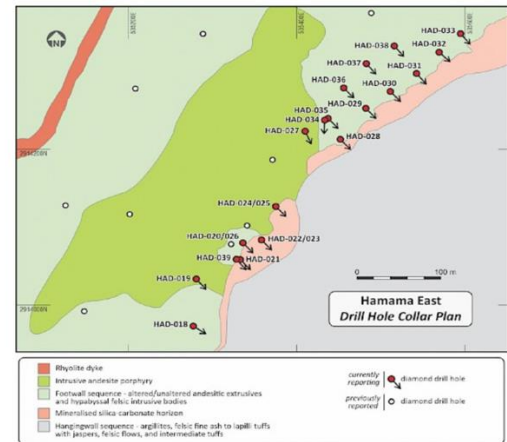
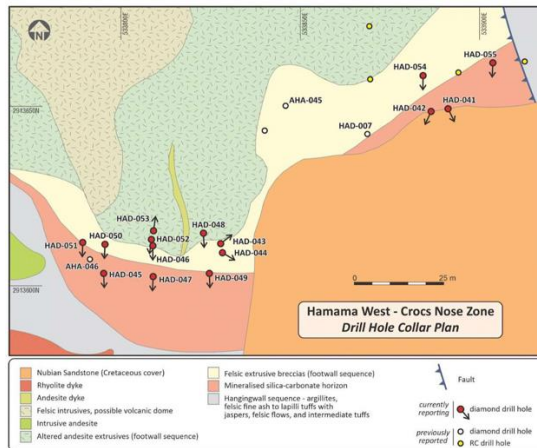


Source: Company

In 2023, Aton **completed a drill program (42 holes/ 1,613 m)** to explore oxide mineralization at the Hamama West – Crocs Nose Zone (CNZ), Hamama East, and Hamama Central.

2023 Drillhole Map (CNZ and Hamama East)

Assay intercepts from the CNZ, and Hamama East, returned high gold grades



At Hamama Central, two out of five holes intersected mineralization

Drilling Highlights

We believe there is significant resource expansion potential, with only one of three targets delineated, and multiple prospects yet to be drilled

Hamama West - CNZ

Hole ID	Intersection (m) ¹			Au (g/t)	Ag (g/t)	AuEq (g/t) ³	Cu (%)	Pb (%)	Zn (%)	Comments ³
	From	To	Interval							
HAD-041	2.00	15.80	13.80	1.50	72.70	2.36	0.01	0.02	0.01	
HAD-042	2.00	36.80	34.80	1.37	52.81	1.99	0.01	0.03	0.04	
HAD-043	31.50	54.30	22.80	0.89	4.67	0.95	0.01	0.02	0.02	includes 0.3m of core loss
and	70.35	85.95	15.60	0.52	54.49	1.16	0.01	0.01	0.02	
HAD-044	6.80	23.85	17.05	0.52	13.08	0.67	0.02	0.03	0.03	
and	28.95	31.15	2.20	1.78	28.95	2.12	0.01	0.01	0.05	
HAD-045	0.80	19.70	18.90	1.23	41.01	1.72	0.01	0.31	0.04	includes 1.3m of core loss
HAD-046	12.60	23.70	11.10	0.47	37.25	0.91	0.01	0.37	0.02	includes 7.2m of core loss
HAD-047	0.00	6.40	6.40	1.00	67.67	1.80	0.01	0.04	0.03	
HAD-048	0.00	17.35	17.35	0.75	54.98	1.39	0.06	0.45	0.02	includes 2.2m of core loss
HAD-049	0.00	16.30	16.30	1.63	7.01	1.71	0.01	0.04	0.04	includes 3.2m of core loss
HAD-050	1.45	11.45	10.00	0.28	6.27	0.35	0.18	0.03	2.48	
HAD-051	-	-	-	-	-	-	-	-	-	Not assayed ⁴
HAD-052	6.45	31.00	24.55	1.84	62.20	2.57	0.03	0.50	0.11	includes 5.7m of core loss
HAD-053	13.52	18.70	5.18	0.61	21.35	0.87	0.44	2.61	2.16	
HAD-054	12.66	33.44	20.78	1.57	230.6	4.28	0.01	0.02	0.01	includes 2.9m of core loss
HAD-055	0.00	5.81	5.81	1.88	18.22	2.09	0.01	0.02	0.03	

Hamama East

Hole ID	Intersection (m) ¹			Au (g/t)	Ag (g/t)	AuEq (g/t) ³	Cu (%)	Pb (%)	Zn (%)	Comments
	From	To	Interval ²							
HAD-018	29.20	32.30	3.10	0.29	4.56	0.34	0.37	0.49	21.34	SCMH
HAD-020	11.20	29.50	18.30	0.75	33.47	1.15	0.09	0.32	2.85	SCMH
HAD-021	0.45	23.15	22.70	0.60	43.49	1.11	0.21	0.33	3.25	SCMH
HAD-022	0.00	22.50	22.50	0.82	47.39	1.38	0.30	0.71	8.20	SCMH
HAD-023	0.00	16.20	16.20	0.72	37.37	1.16	0.16	0.36	4.09	SCMH
HAD-024	0.00	13.65	13.65	0.61	40.63	1.09	0.11	0.37	2.56	SCMH
HAD-025	0.00	13.40	13.40	0.56	27.29	0.88	0.06	0.26	1.51	SCMH
HAD-029	6.20	18.75	12.55	0.60	56.44	1.26	0.15	0.76	5.34	SCMH
HAD-030	13.00	23.90	10.90	0.65	76.78	1.55	0.04	0.13	0.40	SCMH
HAD-034	36.70	44.80	8.10	1.06	60.98	1.78	0.11	0.39	2.03	SCMH
HAD-035	19.20	26.30	7.10	0.75	40.08	1.22	0.07	0.47	1.23	SCMH
HAD-039	2.10	24.60	22.50	0.47	28.82	0.81	0.27	0.41	6.23	SCMH

Notes:
 1) Intersections calculated at a nominal cut-off grade of 0.3 g/t AuEq in runs of continuous mineralisation
 2) Intervals are not true width. True widths are typically c. 80-90% of intersected interval
 3) Gold equivalent, AuEq, is calculated at a ratio of 85:1 Au:Ag (ie. 1 g/t Au = 85 g/t Ag)
 4) Zones of poor (or no) recovery through voids and cavities were not sampled, and allocated zero grade

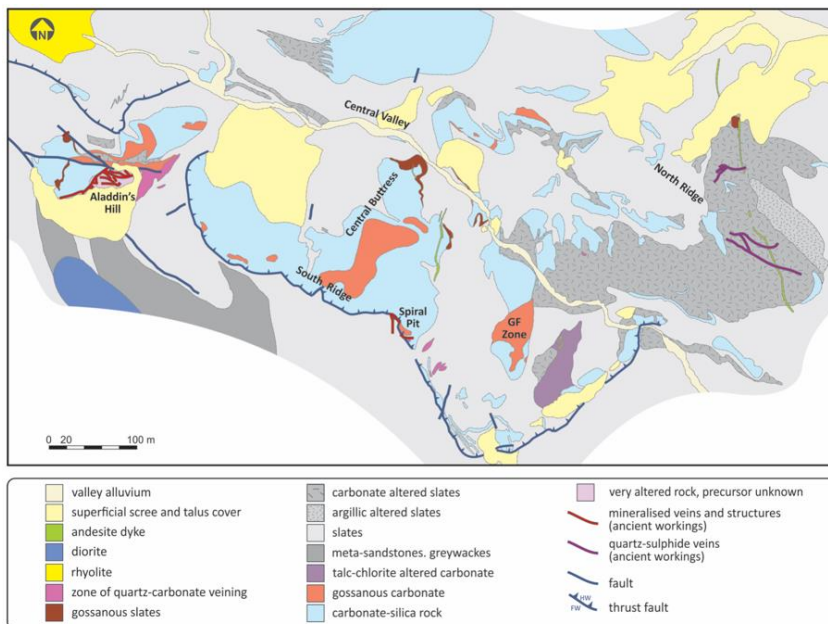
Source: Company

Management is planning a Pre-Feasibility Study (PFS) to mine the upper oxide gold component of the Hamama West deposit. They are targeting production in 2026, with a low strip ratio, open-pit mining, and heap leach processing. We anticipate a relatively small 15 Koz – 20 Koz per year operation. The current oxide resource estimate will last five years.

Rodruin Gold-Silver-Polymetallic Project

Surface sampling, and drilling, have identified an area spanning 800 m x 400 m x 200+ m in depth across multiple zones. A total of 135 drill holes, totaling 13,198 meters, have been completed to date.

Rodruin Mineralized Zones



The Rodruin target was discovered in 2017

Located 18 km east of the Hamama project

Hosts carbonate-hosted VMS-epithermal mineralization similar to the Hamama West deposit

Multiple zones of outcropping surface mineralization

Drilling intersected thick deeper sulphide intercepts of high gold grades of up to 7.93 g/t

Based on available data, we estimate that Rodruin hosts 0.20 Moz AuEq in oxide resources

Drilling Highlights

DIAMOND DRILL INTERSECTIONS	
ROD-055:	88.25m @ 1.74 g/t Au, from 25.75m depth (Aladdin's Hill)
ROD-056:	129.5m @ 1.00 g/t Au, from surface (Spiral Pit Zone)
ROD-062:	40.0m @ 2.32 g/t Au, from 5.2m depth (South Ridge)
ROD-071	88.6m @ 5.76 g/t Au, 42.0 g/t Ag, 0.31% Cu and 2.49% Zn from 117.2m depth (sulphides)
ROD-075:	36.9m @ 7.04 g/t Au, 47.2 g/t Ag, 0.63% Cu and 7.18% Zn from 117.2m depth (sulphides)
ROD-117:	19.3m @ 7.93 g/t Au, 55.2 g/t Ag, 0.21% Cu and 1.34% Zn from 245.3m depth (sulphides)

Source: Company

FRC Speculative Estimate	Rodruin (Oxide Resources)
Length (m)	800
Width (m)	400
Depth (m)	300
Tonnage (assuming 25% mineralization)	62,400,000
Mineable Tonnage (10%)	6,240,000
Ave. AuEq grade (g/t)	1.00
Contained AuEq (oz)	200,621

Source: FRC

Management is targeting a maiden resource estimate in 2025.

Retained Exploration Areas (REA)

Aton controls an additional 255 km² of exploration area, which hosts the **Abu Marawat polymetallic deposit**, the **high-grade Semna discovery**, and several other targets.

Aton has identified 15+ zones/targets

SIR BAKIS

Another early 20th century British gold mine, which exploited a high grade 1.5m wide vein underground. Surface sampling during 2017 returned assays including 150 g/t Au, 32.9 g/t Au, and 29.5 g/t Au

ZENO

Multiple veins over a wide area, which have returned surface sample grades including 117.5 g/t Au, 104.5 g/t Au and 100.5 g/t Au. First pass RC drilling in 2023 returned intersections including 3m @ 9.77 g/t

BOHLOG

Several zones of structurally controlled gold mineralization. Surface channel sampling has returned intersections including 16.7m @ 3.03 g/t Au, and surface samples have

ABU MARAWAT

An established resource on multiple veins/structures, drilled over a combined strike length of 1,500m, and to a depth of >200m. Excellent upside potential on undrilled parts of the high grade Fin and J Vein structures

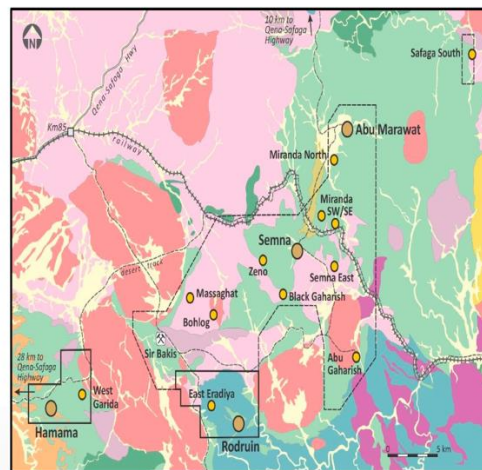
ABU GAHARISH

Structurally controlled gold mineralisation over a 5km strike length along the eastern margin of the Gaharish pluton. First pass RC drilling during 2023 returned intersections including 9m @ 2.10 g/t Au

SAFAGA SOUTH

Quartz veins over an area of several square kilometres, surface sampling has returned assays of up to 102.5 g/t Au and

Targets



Source: Company

Abu Marawat Gold-Silver-Copper-Zinc Deposit

This deposit hosts a **small, polymetallic epithermal vein deposit**, potentially accessible through both open-pit, and underground mining methods.

The resource envelope, spanning 1500 m long x 200+ m deep, is based on 98 drillholes/19,573 m

Abu Marawat Inferred Resources (2012)

	Tonnes (000)	Grade				Contained Metal			
		Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)	Au oz (000)	Ag oz (000)	Cu lbs (million)	Zn lbs (million)
Open Pit	1,636	2.11	34.01	0.70	1.37	111	1,789	25	49
UG	1,243	1.27	23.14	0.85	0.87	51	925	23	24
Total	2,879	1.75	29.3	0.77	1.15	162	2,713	49	73

Source: Company

Resources totaling 353 Koz AuEq

Semna High-grade Gold Project

This property hosts the historic Semna gold mine, and several ancient mining sites. Last year, a regional RC drilling campaign (11,600 m) intersected **bonanza gold grades of up to 50.07 g/t**.

Located 27 km northeast of the Hamama West deposit, and 13 km northeast of the Rodruin project

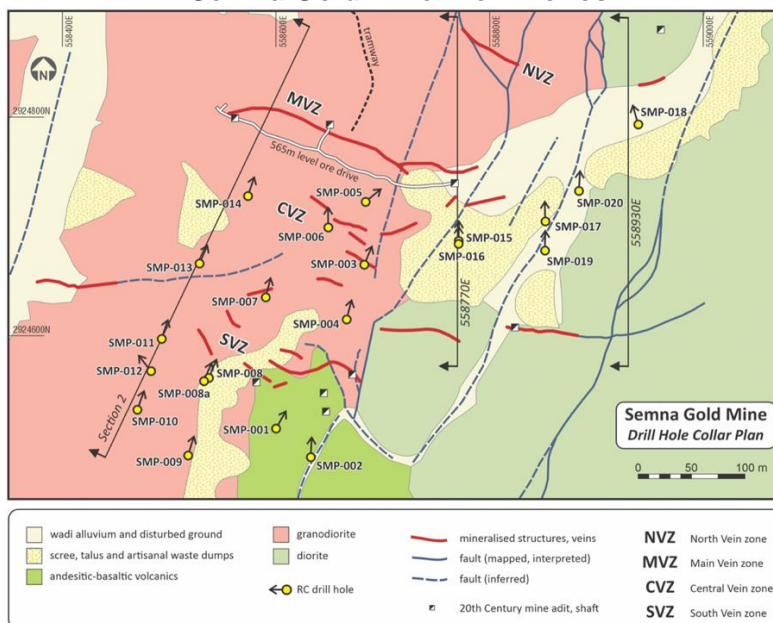
Prospective for orogenic gold deposits, characterized by large tonnage, and high grades

Four major vein zones tested over an area covering 600 m long x 300 m wide x 200+ m deep

Drilling encountered high gold grades in in several holes

Based on our review of all published data, we estimate that Semna hosts 0.45 Moz Au in resources

Semna Gold Mine: Vein Zones



2023 Drilling Highlights

SMP-003:	4m @ 28.36 g/t Au, from 136m
SMP-004:	2m @ 12.45 g/t Au, from 184m
SMP-006:	2m @ 14.20 g/t Au, from 116m
SMP-007:	2m @ 9.74 g/t Au, from 155m
SMP-013:	3m @ 4.93 g/t Au, from 155m
SMP-014:	5m @ 4.14 g/t Au, from 109m
SMP-015:	3m @ 7.11 g/t Au from 78m
SMP-016:	6m @ 50.07 g/t Au, from 75m
SMP-017:	14m @ 5.73 g/t Au, from 56m
SMP-018:	16m @ 11.98 g/t Au, from 61m
SMP-019:	9m @ 10.61 g/t Au, from 130m

Source: Company

FRC Speculative Estimate	Semna
Length (m)	600
Width (m)	300
Depth (m)	200
Tonnage (assuming 25% mineralization)	23,400,000
Mineable Tonnage (10%)	2,340,000
Ave. AuEq grade (g/t)	6.00
Contained AuEq (oz)	451,398

Source: FRC

Metallurgical tests show the deposit can be processed via heap leach and gravity concentration, yielding 97% gold recovery. **Aton is planning a maiden resource estimate in 2025.**

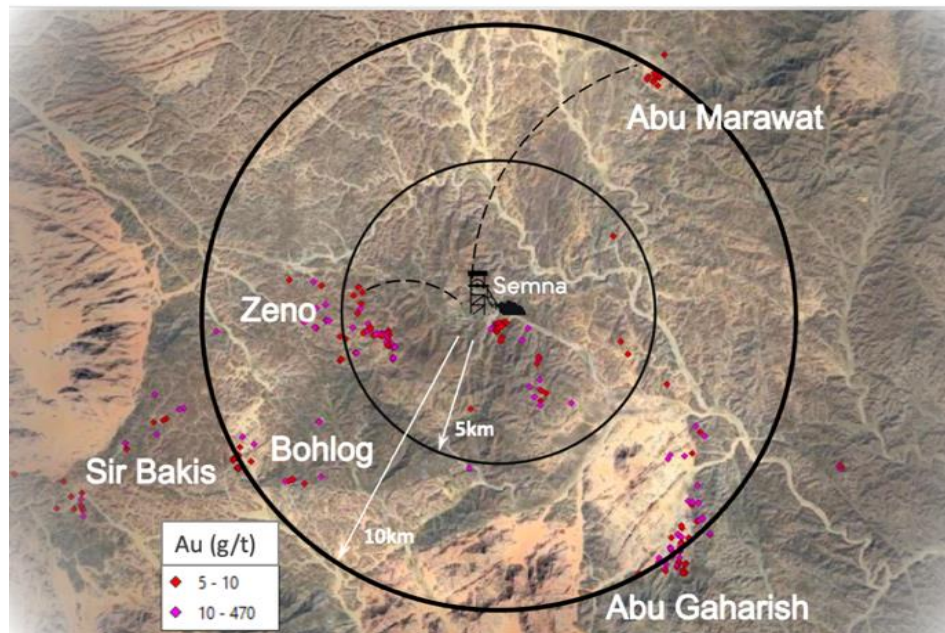
Management's Projected Timeline



Multiple upcoming catalysts

Management's long-term strategy involves establishing a hub-and-spoke operation, centered around a processing plant located at Semna

Hub and Spoke Model



Source: Company

Their near-term goal is advancing Hamama West to production by 2026

Management and Directors

Two institutions own 86% of Aton's equity

The CEO is a control person of one of the institutional investors

Management and Board	Shares	% of Total
Tonno Vahk - CEO & Director / Control Person of OU Hektik*	-	-
Robert Parr - COO	-	-
Bobby Dhaliwal - CFO	-	-
Assem Soliman - Director (Independent)	894,500	0.7%
Anthony Clements - Director (Independent)	83,333	0.1%
Total	977,833	0.8%

Institutions / Others	Shares	% of Total
OU Moonrider	89,701,789	70.4%
OU Hektik*	19,300,724	15.1%
Total	109,002,513	85.5%

Total - Management/ Directors / Institutions	109,980,346	86.3%
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Financials

At the end of 2023, Aton had \$10.21M in debt due to major shareholders

Subsequent to 2023, Aton converted \$6.31M in debt to equity by issuing 28.70M shares, and raised \$4M through the exercise of warrants

The company currently has \$1M in cash, and \$3.5M in debt

(in C\$) (FYE - Dec 31)	2022	2023
Cash	\$116,551	\$453,283
Working Capital	-\$7,702,256	-\$10,227,675
Current Ratio	0.05	0.05
LT Debt / Assets	-	-
Exploration Expenses	-\$6,104,158	-\$5,373,242
Monthly Burn Rate (G&A)	-\$50,335	-\$36,537
Cash from Financing Activities	\$6,742,467	\$6,184,000

Options	#	Exercise Price	Amount
Total	3,300,000	\$0.45	\$1,497,000
In-the-Money	600,000	\$0.25	\$147,000

Warrants	#	Exercise Price	Value
Total	-	-	-
In-the-Money	-	-	-

Source: FRC/Company

FRC Valuation and Rating

African gold juniors are trading at \$56/oz, based on 100% of M&I + 50% of inferred resources

AAN is trading at \$29/oz, reflecting a 48% discount

Recent acquisitions of African juniors were priced at an average of \$82/oz

Applying the sector average EV/oz of \$56/oz to AAN's NI 43-101 compliant resources, and our speculative estimates, we arrived at a comparables valuation of \$0.63/share

Company	Enterprise Value (C\$,M)	EV / Resource
Tietto Minerals (getting acquired)	\$678	\$178.42
Xtra-Gold Resources Corp.	\$44	\$125.18
Osino Resources (getting acquired)	\$362	\$122.71
Galiano Gold	\$417	\$103.06
OreCorp (acquired)	\$223	\$90.14
Orezone Gold	\$409	\$84.85
Orca Gold (acquired)	\$212	\$80.41
Chesser Resources (acquired)	\$55	\$74.07
Newcore Gold Corp.	\$48	\$39.04
East Africa Metals	\$36	\$38.40
KEFI Gold and Copper	\$78	\$36.60
Roscan Gold	\$34	\$30.43
Aton Resources	\$43	\$29.21
Loncor Resources	\$60	\$24.20
Cora Gold	\$14	\$20.74
Toubani Resources	\$17	\$7.08
Average		\$55.78
Aton's Resources (NI 43-101 + FRC Estimates)		1,482,300
Comparables Average EV/ Resources - 25% discount		\$55.78
Fair Value		\$82,688,059
Cash Net of Debt		-\$2,500,000
Fair Value of Aton's Shares (C\$)		\$80,188,059
No. of Shares (calculated based on the treasury stock method)		127,515,913
Fair Value per Share (C\$)		\$0.63

Source: FRC / S&P Capital IQ / Various

We are resuming coverage with a BUY rating, and a fair value estimate of \$0.63 per share. Due to the projects' proximity to each other, and the feasibility of a hub-and-spoke operation with one centralized processing plant, **we believe the company's resources should trade at a premium**, given that CAPEX can be shared among multiple projects. We are more bullish on gold stocks than the metal itself, with gold producer valuations averaging 17% lower compared to the past three instances when gold surpassed \$2k/oz.

Risks

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

*We are assigning a
risk rating of 5
(Highly Speculative)*

- The value of the company is **dependent on gold prices**
- Access to capital and share dilution
- **Exploration and development**
- Geopolitical and FOREX
- No assurance that the company will be able to advance all of its projects simultaneously

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure

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The distribution of FRC's ratings are as follows: BUY (67%), HOLD (3%), SELL / SUSPEND (30%).

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