



Entertainment Media Inc.

INT-TSXV \$0.28

Target Price: **\$1.05**

Recommendation: **SPECULATIVE BUY**

INITIATING COVERAGE

July 9, 2007

Overview

- INT represents an early buying opportunity to participate in a niche, new-media company.
- The Company is a low-cost new media platform building on strong relationships with content providers and other partner sites.
- INT is currently at the revenue testing stage. We expect ad revenue from the new media platform will dominate the total revenue as early as FY08.
- Additional potential upside exists, with further development of the new media platform, including signing up new partner sites and international expansion of NGTV.
- We are initiating coverage on INT with a **SPECULATIVE BUY** recommendation and a 12-month target price of \$1.05.

Share Data

Price	\$0.28	Market cap. (\$mm)	\$	11.5
Basic Shares O/S	41,186,666	Net debt (mm)	(0.3)	
Avg. daily vol.	45,000	Enterprise Value (mm)	\$	11.2

Fundamental Data

	2006E	2007E	2008E	2009E
Revenues (000s)	2,078	3,767	9,174	12,695
EBITDA (000s)	(1,297)	(1,705)	1,413	3,579
Net earnings (000s)	(1,767)	(1,363)	587	2,195
EPS (fully diluted)	(\$0.08)	(\$0.02)	\$0.01	\$0.03
CFPS	(\$0.02)	(\$0.03)	\$0.04	\$0.06
Book value / share	\$0.01	\$0.01	\$0.01	\$0.07

P/E	NM	NM	33.6	9.4
EBITDA margin	NM	NM	15.4%	28.2%
Net margin	NM	NM	6.4%	17.3%
Return on equity	NM	NM	58.9%	43.0%



View This Online Entertainment Opportunity

Growing Strategic New Media Platform

Entertainment Media Inc. is an integrated marketing company that is expanding into the new media landscape. INT's experienced management team has strategically developed a fast-growing new media platform for a relatively small investment of just over \$2 million to date. INT's low cost structure is expected to return hefty operating margins of nearly 40% over the next few years. We have conservatively estimated online revenues reaching \$10.2 million by FY09 as the industry and Company become further advanced. The Company is focused on building new media through efficient use of resources and proprietary programs.

Company Strengths

- Experienced management
- First mover status
- Proprietary programs
- Strong partnerships
- Targeting and geo-segmentation capabilities
- Low-cost, scalable business model
- Core focus on new media platform
- Demographically targeted lineup of content offerings
- An existing, fully integrated creative, web, technology, and graphics production facility

INT will benefit from the increase in online entertainment and search platform advertising spending. We expect the Company's new media platform to continue developing over time as advertising revenues are reinvested in proprietary content. This should solidify Eye Rock's viewer base and revenue generating capabilities further. We anticipate \$19.9 million in ad revenue by 2011, based on the current new media platform.

We are initiating coverage on Entertainment Media Inc. with a **SPECULATIVE BUY** recommendation. Using discounted cash flow and EPS valuations, we have forecast a 12-month target price of \$1.05, a 275% upside on the July 6 closing price of \$0.28.

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Investment Thesis

Intertainment Media Inc. represents an early buying opportunity to participate in a niche low-cost new media/online video entertainment provider.

INT's 100%-owned subsidiary, Eye Rock Digital.com, is currently at the revenue testing stage, where management expects to attract revenue as early as Q4/07. Some advertisers have already signed contracts with Eye Rock, including Molson (TAP-NYSE), Virgin Mobile, and Poker Stars. We expect more advertisers will recognize the positive benefits of online video advertising as the industry grows.

INT's platform offers a personal entertainment experience that is attracting millions of online viewers directly through Eye Rock Digital.com. Last month, after just six months in operation, Eye Rock announced that it had averaged 14 million video views per month. Eye Rock's competitive advantages include the following:

- **It appeals to a targeted advertising demographic audience – primarily males aged 18 – 34:** Eye Rock provides free-of-charge, on-demand channel content and is already rising in the ranks of content providers. Once the target audience and content is developed, the hard work is done. Each month, millions of unique viewers return. Eye Rock has a 51% repeat viewer rate – and they're clicking on more videos per visit. Most content is rated below PG, making Eye Rock advertiser-friendly. Well-known Eye Rock online hostesses help build brand recognition and boost the entertainment value.
- **Strong content provider relationships:** Each month, more new channel content is added through Eye Rock's fully owned and produced content or from partnership-provided content, adding to viewers' interest and repeat visits.
- **Develops exclusive partnerships with leading industry groups** such as NGTV.com, under revenue-sharing plans.
- **Eye Rock's leading-edge Web 2.0 technology could enhance development** of pay-per-view programs, social networks, custom-built client channels for advertisers, or on-demand production for third-party private networks.

More viewers mean more potential revenues. INT's online revenues are just starting to be realized, and will grow as advertisers recognize INT's viewer penetration. We believe that INT's new media division currently has multiple revenue sources from four key developing areas: Eye Rock Digital, NGTV.com, Trooker.com, and DC NetCast.

We are initiating coverage on Intertainment Inc. with a **SPECULATIVE BUY** recommendation. Using discounted cash flow and EPS valuations, we have forecast a 12-month target price of \$1.05, a 275% upside on the July 6 closing price of \$0.28.



Market Overview

What Is Online Entertainment?

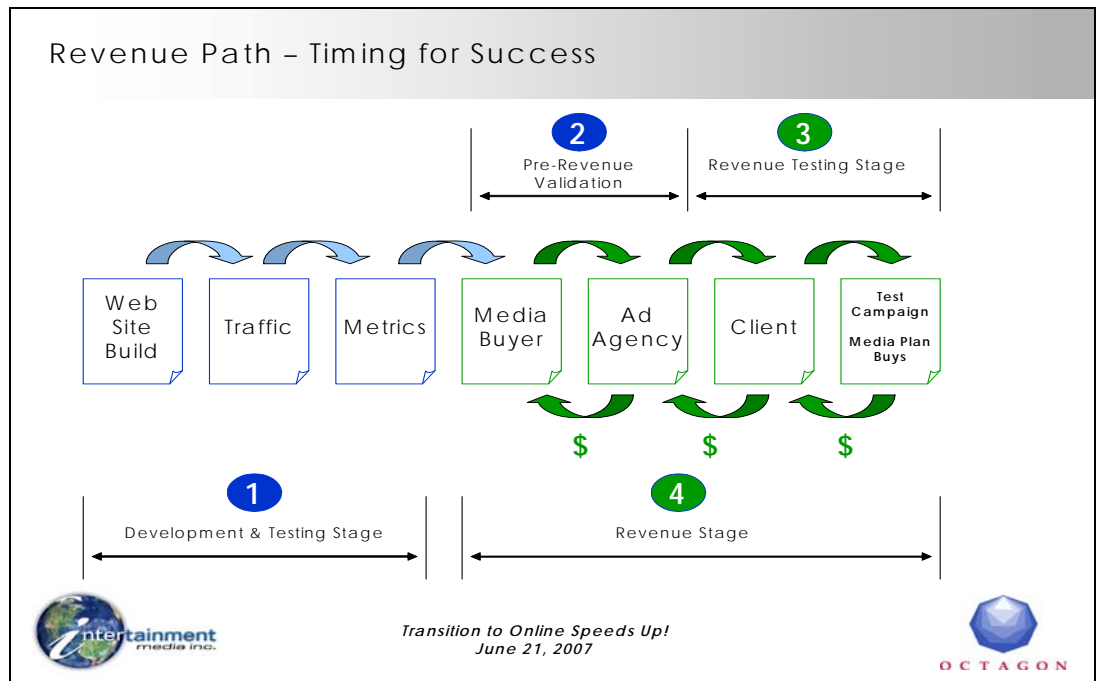
Growing interactive video and TV media platforms offer free content that is capturing consumer time and attention by the millions, and advertisers and marketers are scrambling to understand how to keep pace. The Interactive Advertising Bureau (IAB) of Canada reports that online videos are the fastest growing area of consumer interest. By contrast, advertisers have not yet adjusted their spending to reflect the power of this new medium as an entertainment, information, social, and targeted advertising tool.

Online video is the fastest growing area; advertisers are adjusting their spending.

Total spending on Internet advertising in Canada has already surpassed \$1 billion – 10% of 2006 total advertising spending – and is expected to rise by double digits over the next few years, primarily at the expense of TV ad budgets. Why? Ad dollars will chase consumers as they increase their online usage. Consumers are increasingly accepting and enjoying short form video content in the following order of preference, according to Insight Express for Advertising.com, as shared by the IAB: news clips, music videos, movie trailers, TV shows, user generated videos, movies, and sports clips.

More advertisers are beginning to increase ad budgets for online video and TV ads. As with any new medium, there is a lag between attracting viewers and bringing in ad dollars (see Exhibit 1). We expect INT will move from Stage 3 to Stage 4 in 2007, followed by double-digit growth in 2008 to 2010.

Exhibit 1: INT Revenue Path



Source: Company Data, Octagon Capital Corp.

The number of creative and niche online video and content providers is growing. There are two types: (1) user-generated content (UGC) providers such as www.youtube.com, and (2) Digital Rights Managed (DRM) providers, where the company owns the rights to the uploaded content. Limited government-imposed rules and content regulations allow for distinct, uncensored programming



compared to regular network TV. DRM providers and their content are generally considered more desirable in the advertising world, as there is much less chance of a copyright infringement problem arising. As more online interest grows, INT, as a DRM provider, will have the capability to show longer clips and segments as compared to UGCs with limited content that is generally short and uploaded by users.

The Players

There are thousands of large Internet websites, but advertising-sponsored online video entertainment programming is still at a relatively early stage, and the benefits are still being “taught” to the sophisticated advertisers by associations like the Interactive Advertising Bureau and online measurement services such as ComScore Inc. Some of the large U.S. online entertainment providers that are not in the same niche market as EyeRockDigital.com include YouTube.com (user-driven content and ad-driven); MySpace.com (an ad-driven social community); break.com; livevideo.com; sharkle.com; metacare.com; lulu.tv; and grouper.com.

Other Canadian competitors launched before INT have market caps around \$300 million: Kaboose, a leading online site for children; JumpTV, a leading online site for live streaming of professional ethnic content that is now moving to a advertising-based model from primarily subscription-based; and Heavy.com – which offers alternative on-demand programming, also using an ad-based model. Given the growing number of viewers of online video entertainment, and the fact that advertisers are just beginning to harness the benefit these targeted audiences provide, we believe there is room for many players. In addition, we believe that online video providers have the potential to expand revenue streams beyond Canada to the growing international Internet markets.

Given the targeted niche audiences being carved out by many online content providers, we believe there is upside growth potential to participate in the growing advertising dollars expected to flow to this area as the number of online viewers continues to expand worldwide.

New versus Traditional Media

There appears to be strong upside potential for online entertainment providers to attract advertising dollars. It is not so much that the time, amount of use, and penetration of Internet are up, but the fact that over time, we anticipate advertising dollars to flow in favour of new media, leaving traditional media to struggle with old business models and develop alternative online sales and products. Many traditional media companies have recognized this trend and are reallocating assets in order to capture their share of Internet advertising dollars: Q1/07 Internet ad spending in the U.S. was up 16.7%, compared to low, single-digit growth for traditional media, and so far is only about 10% of the total advertising dollar market share.

Double-digit growth rate
of ad spending on
Internet in 2006 and
Q1/07



Exhibit 2: Competitive Landscape for Media Ad Spending

U.S. MEASURED AD SPEND (\$ BILLIONS)

Medium	2006	% Change	2005	% Change
Network TV	22.879	2.5%	22.313	-0.9%
Cable TV networks	16.746	3.4%	16.197	13.7%
Spot TV	17.234	10.4%	15.615	-9.0%
Spanish Language TV	4.279	13.9%	3.756	
Syndicated TV	4.235	0.3%	4.223	7.4%
Subtotal TV	\$65.373	5.3%	\$62.103	7.3%
Consumer magazine	23.191	4.6%	22.169	9.9%
Sunday magazine	1.881	8.1%	1.739	16.2%
Local magazine	0.462	7.8%	0.428	34.8%
Spanish Language magazine	0.155	9.7%	0.142	
B-to-B publications	4.145	-2.7%	4.260	-2.4%
Subtotal magazine	\$29.833	3.8%	\$28.739	9.1%
National newspapers	3.539	3.3%	3.428	3.8%
Spanish Language Newspaper	0.375	8.5%	0.346	
Local newspapers	24.058	-3.3%	24.872	0.2%
Subtotal newspaper	\$27.972	-2.4%	\$28.646	1.9%
Network radio	1.005	-0.5%	1.010	-1.7%
National spot radio	2.695	3.5%	2.604	-0.5%
Local radio	7.355	-0.7%	7.404	1.8%
Subtotal radio	\$11.055	0.3%	\$11.018	0.9%
internet	9.756	17.3%	8.318	13.3%
Outdoor	3.831	8.6%	3.529	9.8%
FSIs	1.828	25.5%	1.457	4.6%
Total	149.6493	4.1%	143.8084	6.4%

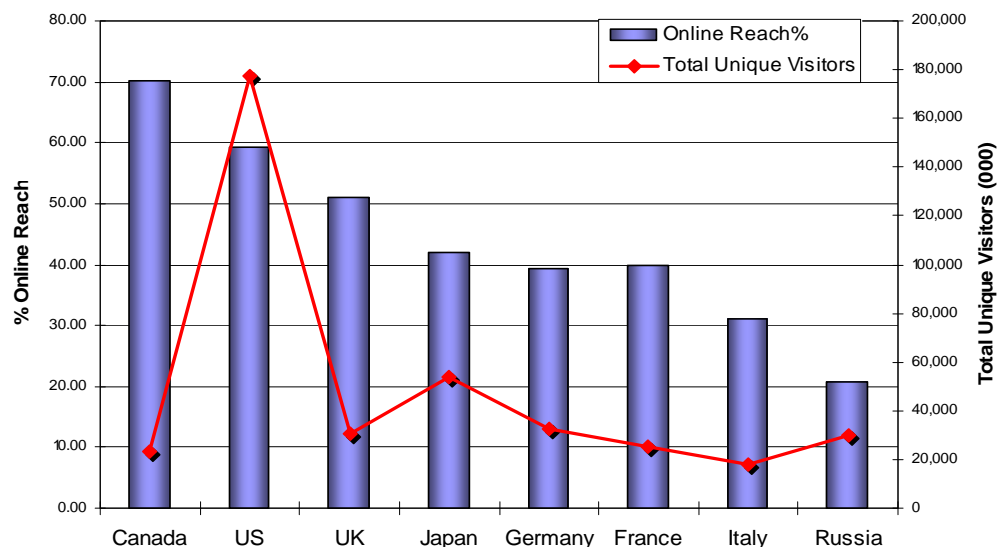
(Source: TNS Media Intelligence)

New Media - Key Growth Drivers

1. Consumer eyeballs are shifting dramatically: Canadian consumers lead the world in Internet usage, time, and penetration, according to ComScore Inc. Since April, industry reports have anticipated increased pressure on traditional media usage as growing Internet use mounts. According to the IAB, Canada is now the world leader in online reach, with a penetration rate of over 70%.
2. Technology is advancing and bringing new capabilities for interactivity. Online communities, TV, music, voice, and videos are establishing new economic, social, and technology trends.
3. Internet has grown to the #3 medium in terms of minutes of usage, closing in on TV and radio, according to the IAB, and Internet is still gaining market share and importance in our lives. The average Canadian now spends about 90 minutes per day online. For 18-24 year olds, the Internet is now the #1 medium. The male, 18-to-34-year-old market is INT's prime target.
4. The fastest-growing category on the Internet is online entertainment multimedia, where nearly 17 million unique Canadian visitors viewed online videos in the month of December 2006. Online videos are the #1 growth category in time spent and pages viewed on the Internet.
5. Internet advertising revenues are growing by double digits, and Canadian Internet ad revenues are estimated to grow by 32% to \$1,337 million in 2007, according to the IAB.



Exhibit 3: Canada is a World Leader in Online Reach



Source: comScore Media Metrix Mar 2007 StatCan Population Estimate, Jan07; Wikipedia Population Estimates

Business Overview

Entertainment Media has evolved into an enterprise primarily focused on developing an online marketing platform for third parties. Originally founded on August 22, 2000 as the Leitrim Group Inc. (LTM.H-TSXV), a Capital Pool Corporation, the Company underwent a reverse takeover transaction to acquire all of the issued and outstanding common shares of Savers Plus GTA Inc. and Magnum Fine Commercial Printing Ltd. on May 26, 2006. This formed Savers Plus International Inc. (SAV-TSXV). After the transaction, SAV launched a series of business initiatives and partnerships through corporate developments (see Appendix B – Building a New Media Platform), to expand operating platforms, products, and services for new revenues.

INT’s businesses can be categorized into two main operating platforms: (1) the New Media Platform, and (2) the Traditional Media Marketing Platform, which includes consulting and management services, value-based marketing programs, and graphic services. To reflect the evolution of the Company’s core products and services in online programs, the Company changed its name to Entertainment Media Inc. on April 30, 2007.

New Media Platform: Eye Rock Digital Network and its Partners’ Websites

Recognizing the success of Google, MySpace, Yahoo, YouTube, and other content and search engine websites in gaining attention and ad dollars, INT entered the world of online TV. INT’s business strategy is to develop exclusive, limited market content relationships with a wide range of providers, including independent producers, amateur development houses, and major studios, through a revenue-sharing model. To date, the platform operates through INT’s wholly owned subsidiary, Eye Rock Digital Network, and INT’s partner websites, including NGTV, Trooker, and DC NetCast.



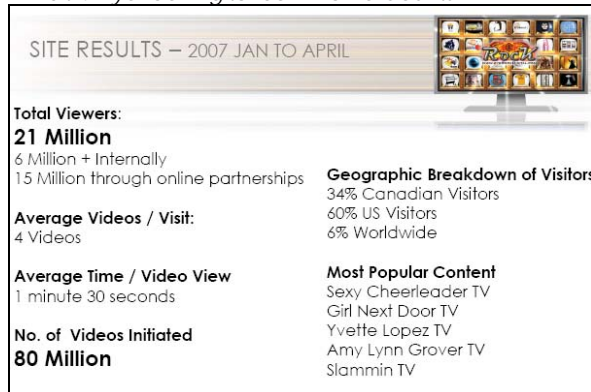
The EyeRockDigital.com beta site, launched in December 2006, is one of the networks delivering a wide range of commercially produced and uncensored entertainment programming over broadband, wireless, and IPTV (Internet



Protocol TV) to the core demographic – males between the age of 18-34, who appear to be “internet savvy, affluent and spend a considerable amount of time online”.

Phase I of Eye Rock’s channels was launched in January 2007, and included the following 14 channels: Yvette Lopez TV, NGTV, Sexy Cheerleader TV, Amy Lynn Grover TV, Triple Bar TV, Girl Next Door TV, Funnies TV, Too Funny TV, Six Gun TV, Thunder Alley TV, NWWL TV, Sci Fi Classics TV, Kung Pow TV, and Slammin TV (see Appendix C for brief description of each). Since the launch, Eye Rock Digital has attracted millions of viewers. By April 30, 2007, over 80 million videos had been viewed by approximately 21 million viewers. Phase II is scheduled to be launched in the summer of 2007, when about 12 more channels will become available to the viewers.

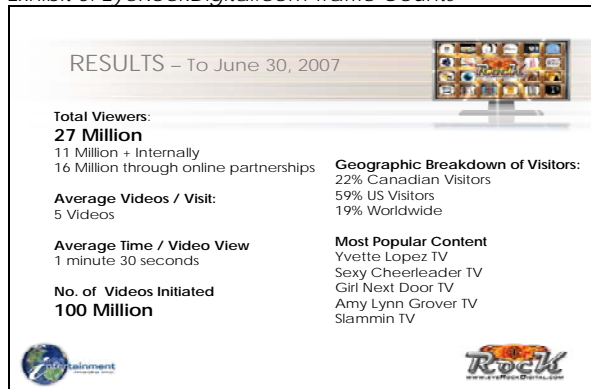
Exhibit 4: EyeRockDigital.com Traffic Counts



Source: Company data

Since May 2007, when Eye Rock Digital began to initiate its viral marketing campaigns over the Internet, targeting viewers in South America, the U.K., and Europe, the traffic has soared. By June 30, 2007, the video views on Eye Rock Digital passed 100 million, with a significant increase in viewers outside North America.

Exhibit 5: EyeRockDigital.com Traffic Counts



Source: Company Data



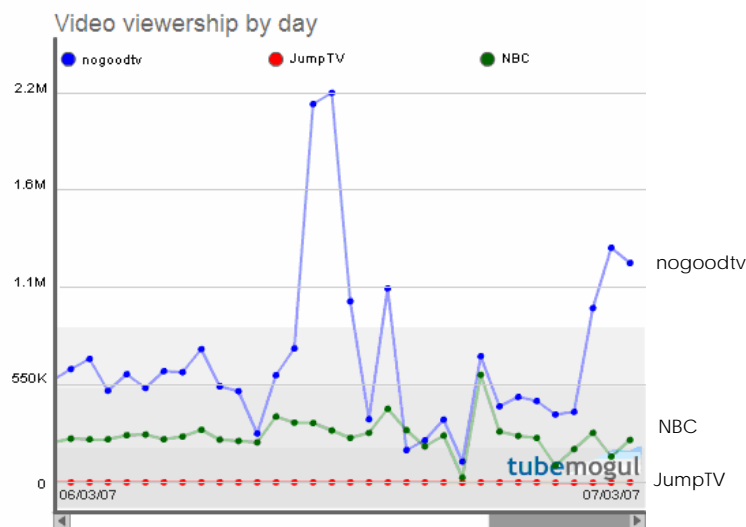
NGTV.com is the world’s largest producer of uncensored celebrity news and entertainment programming, showcasing the biggest A-list stars. On December 20, 2006, INT entered into an



investment relationship with NGTV and became the producer’s Canadian marketing and advertising partner. As per the agreement, INT (then SAV) will invest US\$2 million to US\$2.3 million in a 12% junior secured convertible debenture. This five-year deal gives INT the right to insert advertising and marketing initiatives into NGTV’s geo-segmented Canadian territory through both Internet and wireless platforms. In addition, INT can expand its right to the U.K. and Europe, and has the ability to add to its partnership with NGTV in Asia, the Pacific Rim, and Australia on a first right of refusal basis.

On May 1, 2007, NGTV officially launched its beta site. Later in May, NGTV established an online partnership with YouTube.com. In less than a month, NGTV was consistently being ranked as YouTube’s #1 partner, and has rocketed up the ranks to become the 12th-largest partner of all time, with an average of over 18 million monthly viewers. We believe the increasing viewership on YouTube will have a positive impact on attracting traffic to NGTV.com and the NGTV channel on EyeRockDigital.com over the long term.

Exhibit 6: NGTV vs. NBC, JumpTV on YouTube.com



Source: Tubemogul.com; Octagon Capital Corp.



The Trooker.com beta site, which launched on May 11, 2007, is “an up-to minute video viewing community”. Trooker.com allows users to search and watch online videos continuously on the web, regardless of which website the videos were originally uploaded to. With Trooker, users can receive alerts when new videos on a topic of interest become available on the web, and can share watching experiences by instantly exchanging video with each other. On May 28, 2007, INT signed an agreement with Trooker, wherein INT became the primary marketing partner, and will provide advertising technologies and representation on a fee-based plus revenue-sharing model. The new Trooker.com is scheduled to be officially launched in July or August 2007.



DCNetCast.com is a high-quality video content and video-streaming technology provider. On June 5, 2007, INT announced a minority equity interest in DC NetCast.



Through the newly formed relationship, INT secured not only the content, but also the technology services and proprietary software to support the growth in its new media platform.

One of the exciting opportunities is DC NetCast’s 2Theater.com, which is finalizing the digital rights for over 36,000 feature films plus TV series from all of the top Hollywood studios and TV Networks. At 2Theater.com, viewers can watch movies free of charge, in exchange for watching only five minutes of streamed video advertising – as opposed to watching approximately 20 – 30 minutes of advertising during the same movie on a TV channel. INT will provide over 500 full length movie and programming titles to enrich 2Theater’s holdings, and negotiate for more programming. The new DCNetCast.com including 2Theater.com will be launched in the summer of 2007.

Traditional Media Marketing Platform

Graphic Services – Magnum Fine Commercial Printing Ltd.



The printing media division offers a range of graphic design and print production services to both the commercial and trade print services industry in North America. Established in 1985, Magnum has grown to a mid-size, full-service printing and design operation. Its clients range from professional financial and legal services to real estate agents to print brokers. Magnum is currently the major revenue driver of INT, with revenue of \$1.7 million (or 57% of total revenue) in FY05 and \$1.6 million (76% of total revenue) in FY06.

Value-Based Marketing Program – Savers Plus GTA Inc.



Focusing on building the client’s brand and customer loyalty, this segment of INT develops and markets client, merchant, and consumer marketing programs, including local, regional, and national discount programs for the fundraising, promotional, commercial, and affinity markets. Savers Plus provides custom coupon cards; Yes! CARD Plus, an integrated benefits program that offers consumers a single “credit card” style product with access to up to 120,000 merchants and business values in the U.S. and Canada; AdKey, an advertising booklet given to guests who are registered at participating lodging and hospitality facilities; proprietary discount programs for commercial clients, groups, membership organizations, advocacy groups, and charities; strategic planning, operational experience, and technologies to a host of new marketing programs; and loyalty gaming programs.

Consulting and Management Services – ThinkScene



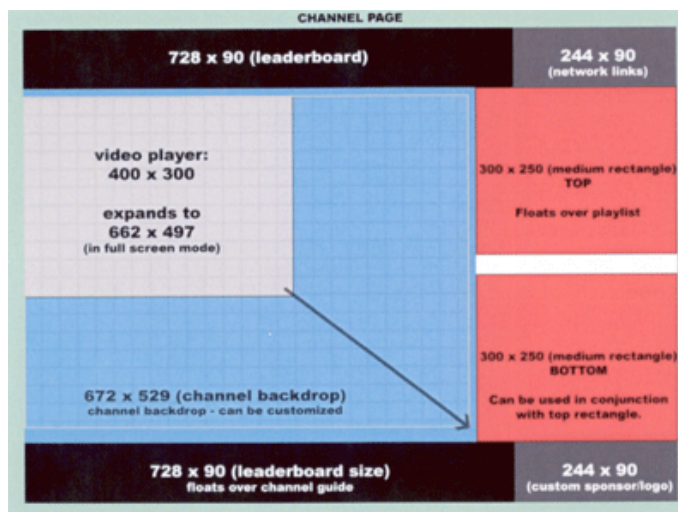
ThinkScene provides consulting and management services, such as marketing, communications, and new program development on a fee basis to companies moving into the new media space. As the transition to new media speeds up, we see growth potential in this area.



Financial Analysis

Eye Rock Digital has multiple revenue streams (see Exhibit 7 for a demonstration of potential ad opportunities). Besides the pricing, the revenue is also sensitive to the sell-through rate of the available ad inventory.

Exhibit 7: EyeRockDigital.com Multiple Revenue Streams



Source: Company Data

For its new media platform, the revenue includes ad revenue generated on EyeRockDigital.com and NGTV.com in Canada as well as revenue shared with Trooker.com and dcnetcas.com, based on the services provided by INT. Based on our favourable outlook for niche Internet, INT’s core new media operations, and expected growth of the Company’s new media platform, we forecast that the revenue from the new media will dominate INT’s revenue stream as early as FY08. As it is still too early to put numbers on CPM (Cost per Thousand impressions) of Trooker.com and DC NetCast.com, we have made a number of assumptions. The assumed revenue per video stream (before revenue sharing) and annual growth rate of total video streams for each website are as shown in Exhibit 8.

Exhibit 8: New Media Revenue Assumptions

	2007	2008	2009	2010	2011
Revenue per Video Stream (C\$)					
Eye Rock Digital	0.060	0.060	0.060	0.060	0.060
NGTV	0.060	0.060	0.060	0.060	0.060
Trooker	0.025	0.025	0.025	0.025	0.025
DC NetCast	0.060	0.060	0.060	0.060	0.060
Growth Rate of Video Streams					
Eye Rock Digital		80%	40%	40%	40%
NGTV		80%	40%	40%	40%
Trooker		300%	40%	40%	40%
DC NetCast		300%	40%	40%	40%

Source: Octagon Capital Corp.

We have projected that INT’s Value Based Program and Graphic Service will continue to deliver revenues at a growth rate of approximately 8% over the next five years, with an expected terminal growth rate of 6%. Though we realize the growth potential of the Company’s Consulting and



Management Services platform, taking into account the uncertainty of its recurring revenue, we see the future of the Consulting business as a value-added pre-marketing services provider to the new media platform rather than a significant revenue generator; we have therefore not included any revenue from this platform in the model.

Exhibit 9: Projected Revenue

(C\$ 000s)	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>	<u>2011E</u>
Revenue					
New Media	113	6,823	10,156	14,218	19,905
Consulting and Management	1,478	-	-	-	-
Consumer and Merchant Marketing Prog.	518	560	604	653	705
Graphic Design and Print Production	1,659	1,791	1,935	2,089	2,257
Net Revenue	3,767.2	9,173.8	12,694.7	16,960.1	22,866.6

Source: Octagon Capital Corp.

We continue to use the historical gross margins for the traditional media marketing operations, and assumed a gross margin of 40% for its new media platform. Based on the revenue-sharing agreements with its partners, a percentage of the ad revenue earned by the partners will go to INT, who acts as their primary marketing partner and provides advertising representation, at no direct cost. Cost of goods sold refers to the costs occurred for INT to obtain the video streams for EyeRockDigital.com, and is based on the revenue from EyeRockDigital.com.

Exhibit 10: Costs Forecasts

(C\$ 000's)	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>	<u>2011E</u>
Variable Costs					
COGS					
New Media	67.5	2,916.0	4,082.4	5,715.4	8,001.5
Consulting & Management	738.9	0.0	0.0	0.0	0.0
Marketing Services	259.1	279.8	302.2	326.4	352.5
Magnum	1,161.0	1,253.9	1,354.2	1,462.6	1,579.6
Total Variable Costs	2,226.6	4,449.8	5,738.9	7,504.3	9,933.6
Fixed Costs					
Salaries & Benefits	1,646.0	1,678.9	1,712.5	1,755.3	1,799.2
Professional & Consulting Fees	400.0	408.0	416.2	426.6	437.2
G & A	300.0	306.0	312.1	319.9	327.9
Development	700.0	714.0	728.3	746.5	765.1
Investor Relations	200.0	204.0	208.1	213.3	218.6
Other	0.0	0.0	0.0	0.0	0.0
Total Fixed Costs	3,246.0	3,310.9	3,377.1	3,461.6	3,548.1
Total Costs	\$5,472.6	\$7,760.7	\$9,116.0	\$10,965.9	\$13,481.7

Source: Octagon Capital Corp.



Valuation and Recommendation

Our valuation approaches include DCF and P/E vs. Comparables in the printing and new media sub-sectors. Our DCF sensitivity analysis values INT within the range of \$0.76 - \$2.30 based on a WACC variance of 14% to 22%; terminal growth rate of the new media platform varied between 5% and 10%.

Exhibit 11: Discounted Free Cash Flow to Equity – Sensitivity Analysis

		Discount Rate				
		12%	14%	18%	22%	25%
New Media Terminal Growth Rate	5%	\$0.98	\$0.92	\$0.81	\$0.72	\$0.67
	6%	\$1.09	\$1.03	\$0.91	\$0.81	\$0.74
	7%	\$1.25	\$1.17	\$1.03	\$0.92	\$0.84
	8%	\$1.47	\$1.38	\$1.21	\$1.07	\$0.98
	9%	\$1.80	\$1.68	\$1.48	\$1.31	\$1.20
	10%	\$2.35	\$2.20	\$1.93	\$1.70	\$1.56

Source: Octagon Capital Corp.

Based on the FY09 projected percentage segmented revenue (from new and traditional media platforms) over total revenue of INT, we have assigned 20% and 80% weightings to the P/E multiples of comparable printing and new media sub-sectors, respectively, to arrive at a weighted-average P/E multiple range for INT.

Exhibit 12: Weighted-Average P/E multiple

	Printing & Management Sub-sector at 20%	Interactive Media Sub-sector at 80%	Weighted-Average P/E
High	5.4x	57.6x	63.1x
Low	2.5x	15.8x	18.3x
Mean	3.5x	32.9x	36.5x
Median	3.2x	29.1x	32.3x

Source: Octagon Capital Corp.

Considering that INT’s new media business is still in the process of growing and higher revenues aren’t expected until FY08, we think a P/E multiple of 34x, below the weighted-average mean P/E multiple of 36.5x, is appropriate at this point. The equity value is \$1.02, applying a P/E ratio of 34x and a forecast EPS of \$0.03 in FY09. We then round it up to \$1.05, which indicates a discount rate of 14% and a terminal growth rate of 6%.

Valuation Upside Potential

Our target price of \$1.05 is primarily based on INT’s known operating platforms, including its subsidiary and marketing partners. Based on INT’s strategic online plans and ongoing international development since the reverse-takeover, we think it is highly likely that INT will continue building the new media division by entering into more marketing agreements. INT may also benefit if NGTV.com expands internationally.



Valuation Impediments

Impediments to our target price include the following:

- Revenue from the new media platform could fall behind schedule, if the available ad inventory sell-through rate, actual pricing, or the viewer traffic count is lower than we have projected;
- The scheduled launches of Trooker.com and DCNetCast.com could encounter setbacks; or
- Lower margins derived from changes to industry trends or competition could occur.

Conclusion

INT represents a Canadian opportunity for investors to benefit from the new consumer habits, and we are therefore initiating coverage of Intertainment Media Inc. with a **SPECULATIVE BUY** recommendation and a 12-month target price of \$1.05, which represents a 275% upside based on the July 6 closing price of \$0.28.



Investment Risks

INT's business, financial condition, and results of operations are subject to certain risks, as described below.

Management – INT Depends on a Few Key Personnel

The future success of INT will depend upon its continued ability to identify, hire, develop, motivate, and retain highly skilled individuals, with the significant leadership and contributions by its senior management, particularly David Lucatch, the president and CEO of INT, who we believe to be critical to INT's success at this stage of development.

Possible Adverse Events and Trends

In general, INT's businesses are primarily dependent on new media trends. Adverse events and trends, including general economic downturns and decreases in consumer spending and in the various industries in which INT businesses operate, could adversely affect INT's business, financial condition, and results of operations. In particular, Magnum's revenue is sensitive to increases in paper and printing costs, which could reduce the profitability of the printing business to the extent that increases cannot be passed directly to customers. We forecast that the revenue from the new media platform will become material as early as the first half of FY08. Our projections are highly dependent on continued growth and acceptance of online advertising as an effective alternative to traditional advertising media.

Third-Party Relationships

An important component of the success of INT's businesses depends on the Company's ability to maintain its existing – as well as build new – relationships with content suppliers, tech supporters, and advertisers, and respond to any adverse changes in these relationships.

The recurring revenue of Magnum comes from advertising agents, whom Magnum has been dealing with since its inception. A material portion of the revenues of the new media platform is derived from its revenue-sharing model with NGTV, Trooker, and DC NetCast. The sustainability of Eye Rock Digital also depends on its partnership with content provider Avalon Media Inc., as well as others such as SilverBirch Inc., which provides wireless entertainment content and video streaming. Going forward, part of INT's success will depend on its relationships and business development with existing and new partners.



Appendix A: Management

David Lucatch, President and CEO, is a leader in the Traditional, Internet and New Media arena. David founded one of Canada's first publicly traded Internet companies in 1995, and continues to be at the forefront of industry and technology development.

Brent Snowden, Head of Business Development, is a veteran of the traditional sales and marketing programs. Brent is a founder of the parent company, Savers Plus International Inc., and is primarily responsible for working with multi-national companies to execute their business initiatives.

Jana Lucatch, President of the Graphic Arts Production and Services Division, has over 20 years' experience in creative, print, and graphic arts sales and management.



Appendix B: Building the New Media Platform

Corporate Developments Since the Reverse Takeover in May 2006

- July 3, 2007: INT released the traffic counts on EyeRockDigital.com, where the video views passed 100 million as of June 30, 2007
- June 14, 2007: INT announced that NGTV had become the 12th-largest partner of all the time, with a monthly average of over 18 million views
- June 5, 2007: INT announced that it had agreed to acquire a minority equity interest in DC NetCast Media Inc., with diversified holdings in both content assets and technology IP. Term: DC NetCast will provide proprietary and licensed content, technology services, and proprietary software to support INT, including Eye Rock Digital and INT's other associated properties. INT will purchase and license content from DC NetCast on a revenue-sharing basis and assist in the distribution efforts of the DC NetCast software platform
- June 4, 2007: NGTV announced the marketing partnership with Microsoft's Xbox, tied to the highly anticipated HALO 3 video game exclusively for the Xbox 360 console
- May 28, 2007: INT announced the agreement with Trooker Inc., a innovative video search and sharing company. Term: INT will make a minority equity investment in Trooker Inc. and be awarded the primary marketing contract for Trooker.com to provide advertising technologies and representation on a fee-for-service arrangement, and a share of generated revenues
- April 30, 2007: INT released the launch of the next version of its Eye Rock Digital Network. Since its launch in January 2007, over 80 million videos have been viewed on Eye Rock Digital and its content partners
- March 6, 2007: NGTV released its channels on www.ngtv.com, where INT and Eye Rock Digital have the exclusive rights to insert advertising and promotional programs to NO GOOD TV broadband viewers from the geo-segmented Canadian territory, with option on additional territories, including the U.K., Europe, Asia, Pacific Rim, and Australia
- Feb. 20, 2007: Eye Rock Digital Network signed an agreement with Dec/Jan 2007 Playboy Special Editions Lingerie Cover Girl, Amy Lynn Grover to develop her own online television channel and to host Canadian and International segments of Eye Rock Digital.com programming
- Dec. 20, 2006: INT released the extended investment relationship with NGTV. INT will invest US\$2.0 million to US\$2.3 million in a 12% junior secured convertible debenture prior to NGTV receiving approval for listing on the AMEX stock exchange. The investment allows INT to extend its deal for an additional two years, and its rights to the U.K. and Europe. In addition, INT will have the ability to extend its rights, on a first right of refusal basis, to include Asia, the Pacific Rim countries, and Australia
- Nov. 9, 2006: INT signed a letter of intent with NGTV. The deal gives the Company the right to insert advertising and marketing initiatives into NGTV's geo-segmented Canadian territory through the Internet and wireless platforms for up to three years with renewable option
- Nov. 3, 2006: INT released the agreement between the Eye Rock Digital and SilverBirch Inc., which will provide wireless entertainment content and video streaming for the network



- Oct. 26, 2006: INT announced the Company had engaged Brightcove of Cambridge, MA for the use of Brightcove's leading-edge Internet TV services
- Oct. 25, 2006: INT announced a signed agreement between the Eye Rock Digital and Avalon Media Inc, which will provide content for the network
- Oct. 23, 2006: INT announced that Eye Rock Digital signed an agreement to broadcast the international, top-selling program Carmen Electra's NWWL Women's Wrestling
- Oct. 19, 2006: INT announced the contract with International Playboy Model Yvette Lopez through 2009 to perform broadcast hosting services and celebrity interviews with the Eye Rock Digital Network
- Oct. 10, 2006: the Company announced the plan to launch a global system of Video on Demand content and Internet protocol television – the Eye Rock Digital Network
- Sept. 7, 2006: the Company became the marketing agency of record for the Bulldog brand energy drink and related merchandise in North America for Sports Science Nutrition Corporation ("SSNC"). Term: a minimum of US\$2 million over three years in approved billings, with US\$1 million of the compensation in the form of common shares of SSNC against billings
- Aug. 14, 2006: the Company acquired the worldwide right to market the Vegas Maximus Master Gaming Series of instructional DVDs. Term: three-year contract, INT will receive 70% of the gross profits on all global sales through the contracted business channels until INT receives US\$500,000 in profits. Subsequently, INT will then earn 60% of the gross profits after the first, one-time milestone of US\$500,000 profit is received

Source: Company press releases



Appendix C: Channel Line Up – Phase I

- Yvette Lopez TV: Features the premiere host of EyeRock Digital, Yvette Lopez. The clips bring you through a day in the life of Yvette Lopez - see the hottest parties, watch her try on sexy lingerie, and gain access to the hottest events where only VIPs are invited.
- No Good TV: The name speaks for itself. Watch uncensored behind-the-scenes interviews with celebrities like Justin Timberlake, Akon, Jessica Alba, and many more! Gain access to the hottest A-list celebrities in Hollywood.
- Sexy Cheerleader TV: Remember when everybody came out to the game just to see the cheerleaders? Nuff said.
- Amy Lynn Grover TV: As the newest host onboard, Amy Lynn Grover will take you on a virtual tour you won't forget. Visit the Playboy Mansion and take a walk on the beach with her - at Amy Lynn Grover TV, anything is possible.
- Triple Bar TV: If you can find it in a casino or gaming parlor, you can bet your last dollar that you'll be able to find it here. Learn the tricks of the trade from Vegas' most infamous players.
- Girl Next Door TV: She's beautiful and potentially out of your league. It doesn't keep you from trying and her from teasing. See her - the way you'd hope to (with her clothes on!) at Girl Next Door TV.
- Funnies TV: The classics of the golden age of animation.
- Too Funny TV: Comedy, raw and uncensored, is what you'll find at Too Funny TV.
- Six Gun TV: Yeehaw! You'll find the classic westerns from TV and the movies here.
- Thunder Alley TV: Gentlemen, start your engines! You're in for a helluva ride at Thunder Alley TV.
- NWWL TV: Previously available only through pay-per-view or DVD purchase, the Naked Women's Wrestling League has been seen globally in 38 countries by millions of viewers.
- Sci Fi Classics TV: If it came from outer space and is planning to invade the earth, eat your brain or seduce our planet, you'll find it on Sci Fi Classics TV.
- Kung Pow TV: Classic martial arts movies and not-so-classic, poorly-dubbed crap - the films that made Kung Fu famous. Watch fighters battle with their punches and kicks at Kung Pow TV.
- Slammin TV: If it's big, brutal and can fly at each other in a cage or ring, it's waiting for you at SlamminTV.com.

Source: eyerockdigital.com/blog



Appendix D: Intertainment Media Inc. Income Statement

(C\$ 000s)

	<u>2005A</u>	<u>2006A</u>	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>	<u>2011E</u>
Revenue							
New Media			113	6,823	10,156	14,218	19,905
Consulting and Management			1,478	-	-	-	-
Consumer and Merchant Marketing Prog.	1,273.8	498.3	518	560	604	653	705
Graphic Design and Print Production	1,719.5	1,579.7	1,659	1,791	1,935	2,089	2,257
Net Revenue	2,993.4	2,077.9	3,767.2	9,173.8	12,694.7	16,960.1	22,866.6
Cost of Sales	1,938.3	1,386.6	2,226.6	4,449.8	5,738.9	7,504.3	9,933.6
S,G & A (ex: stock option compensation)	1,679.1	1,676.5	3,246.0	3,310.9	3,377.1	3,461.6	3,548.1
Total Costs	3,617.4	3,063.1	5,472.6	7,760.7	9,116.0	10,965.9	13,481.7
Adjustments - stock compensation	0.0	312.0	0.0				
EBITDA	(624.0)	(1,297.2)	(1,705.4)	1,413.1	3,578.7	5,994.1	9,384.9
Depreciation	191.9	194.1	200.9	199.5	139.8	139.8	142.9
EBIT	(815.9)	(1,491.2)	(1,906.3)	1,213.6	3,438.9	5,854.3	9,242.0
Interest Expense	155.8	257.4	206.4	323.2	53.9	(187.5)	(337.8)
EBT	(971.7)	(1,748.6)	(2,112.7)	890.5	3,385.0	6,041.8	9,579.8
Current Income Taxes	(26.7)	(25.5)	0.0	0.0	0.0	1,879.7	3,352.9
Future Income Taxes	(5.1)	43.5	(739.5)	311.7	1,184.8	234.9	0.0
Total Income Taxes	(31.7)	18.1	(739.5)	311.7	1,184.8	2,114.6	3,352.9
Net Income	(\$940.0)	(\$1,766.7)	(\$1,373.3)	\$578.8	\$2,200.3	\$3,927.2	\$6,226.8
Average Diluted Shares O/S	(000 shares)						
Earnings per Share	(C\$ / share)	21,000.0	23,046.3	60,802.9	70,441.8	73,855.5	77,269.1
		(\$0.045)	(\$0.077)	(\$0.023)	\$0.008	\$0.030	\$0.051
Margins							
EBITDA Margin	(20.8%)	(62.4%)	(45.3%)	15.4%	28.2%	35.3%	41.0%
EBIT Margin	(27.3%)	(71.8%)	(50.6%)	13.2%	27.1%	34.5%	40.4%
Return on Equity		(378.9%)	(344.0%)	59.2%	43.2%	43.6%	40.8%



Appendix E: Intertainment Media Inc. Cash Flow Statement

(C\$ 000s)

	<u>2005A</u>	<u>2006A</u>	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>	<u>2011E</u>
Operating Activities							
Net Income / (Loss)	(940.0)	(1,766.7)	(1,363.3)	586.9	2,195.1	3,920.4	6,220.0
Depreciation & Amortization	191.9	194.1	200.9	199.5	139.8	139.8	142.9
Future Income Taxes (Recovered)	(5.1)	43.5	(734.1)	316.0	1,182.0	228.0	0.0
Stock-based Compensation	0.0	312.0	0.0	0.0	0.0	0.0	0.0
Loan Receivable Written off as bad debt	0.0	4.3	0.0	0.0	0.0	0.0	0.0
	<u>(753.2)</u>	<u>(1,212.7)</u>	<u>(1,896.5)</u>	<u>1,102.3</u>	<u>3,516.8</u>	<u>4,288.2</u>	<u>6,362.8</u>
Changes in working capital	<u>288.0</u>	<u>1.6</u>	<u>(363.1)</u>	<u>1,547.6</u>	<u>833.9</u>	<u>2,772.6</u>	<u>1,691.3</u>
Operating Cash Flow	(465.2)	(1,211.2)	(2,259.6)	2,650.0	4,350.7	7,060.9	8,054.1
Investing Activities							
CAPEX	(28.5)	(75.3)	(31.0)	(37.0)	(43.0)	(49.0)	(55.0)
Loan Receivable	22.6	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	(832.0)	(2,000.0)	0.0	0.0	0.0
Investing Cash Flow	(5.9)	(75.3)	(863.0)	(2,037.0)	(43.0)	(49.0)	(55.0)
Financing Activities							
Repayment of Capital Leases, Revolver loan	(203)	(209)	(188.0)	(62.1)	0.0	0.0	0.0
Director's Advances	169	19	0.0	0.0	0.0	0.0	0.0
Note Payable to Related Party	140	(6)	0.0	0.0	0.0	0.0	0.0
Notes Payable	50	(50)	277.6	(100.0)	(177.6)	0.0	0.0
Debentures Issued / (Payment)	269	100	1,911.6	0.0	(1,911.6)	0.0	0.0
Capital Stock, Net of Share Issue Costs	0	2,109	1,306.2	0.0	1,911.6	0.0	0.0
Cash Acquired on Reverse Take-over	0	0	0.0	0.0	0.0	0.0	0.0
Shareholder Loan	0	(10)	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	425	1,953	3,307	(162)	(178)	0	0
Change in the Cash Position	(46.0)	667.0	184.8	450.9	4,130.1	7,011.9	7,999.1
Beginning Cash	(37.8)	(83.7)	583.2	768.0	1,219.0	5,349.1	12,360.9
Ending Cash	(83.7)	583.2	768.0	1,219.0	5,349.1	12,360.9	20,360.0



Appendix F: Entertainment Media Inc. Balance Sheet

(C\$ 000)

	2005A	2006A	2007E	2008E	2009E	2010E	2011E
ASSETS							
Cash & Cash Equivalents	0.0	635.9	2,685.1	1,219.0	5,349.1	12,360.9	20,360.0
Accounts Receivable	173.9	158.9	2,158.3	3,047.0	3,625.8	2,788.0	3,758.9
Income Taxes Recoverable	30.3	55.7	55.7	55.7	55.7	55.7	55.7
Loan Receivable	4.3	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid Expenses and Sundry Assets	29.6	144.8	144.8	144.8	144.8	144.8	144.8
Total Current Assets	238.2	995.4	5,043.9	4,466.5	9,175.4	15,349.4	24,319.5
Capital Assets	1,815.47	1,890.8	1,921.8	1,958.8	2,001.8	2,050.8	2,105.8
Accumulated Depreciation	(885.4)	(1,079.5)	(1,280.4)	(1,479.8)	(1,619.6)	(1,759.4)	(1,902.3)
Net Capital Assets	930.0	811.3	641.4	478.9	382.1	291.3	203.4
Investment in Partnership	0.0	0.0	832.0	2,832.0	2,832.0	2,832.0	2,832.0
Total Assets	\$1,168.2	\$1,806.7	\$6,517.3	\$7,777.5	\$12,389.6	\$18,472.8	\$27,354.9
LIABILITIES AND EQUITY							
Bank Debt - Revolver	83.7	52.7	1,917.1	0.0	0.0	0.0	0.0
Accounts Payable and Accrued Liabilities	554.7	803.8	2,440.1	4,876.5	6,289.2	8,223.9	10,886.1
Directors' Advances	289.5	124.6	124.6	124.6	124.6	124.6	124.6
Note Payable to Related Party	387.1	0.0	0.0	0.0	0.0	0.0	0.0
Notes Payable	50.0	0.0	0.0	0.0	0.0	0.0	0.0
Debentures Payable	268.8	0.0	0.0	0.0	0.0	0.0	0.0
Current Portion of Capital Lease Obligations Payable	214.7	188.0	62.1	0.0	0.0	0.0	0.0
Other - Promissory note	0.0	0.0	277.6	177.6	0.0	0.0	0.0
Total Current Liabilities	1,848.6	1,169.1	4,821.4	5,178.7	6,413.8	8,348.5	11,010.7
Future Income Taxes	65.7	109.3	(624.8)	(308.8)	873.1	1,101.1	1,101.1
Debenture Loans Payable	0.0	0.0	1,911.6	1,911.6	0.0	0.0	0.0
Capital Lease Obligations	244.6	62.1	0.0	0.0	0.0	0.0	0.0
Total Long Term Liabilities	310.3	171.3	1,286.8	1,602.8	873.1	1,101.1	1,101.1
Total Liabilities	2,158.9	1,340.4	6,108.2	6,781.5	7,286.9	9,449.7	12,111.9
Capital Stock	0.2	2,832.8	4,139.0	4,139.0	6,050.6	6,050.6	6,050.6
Contributed Surplus	0.0	140.4	140.4	140.4	140.4	140.4	140.4
Share Purchase Warrants	0.0	382.2	382.2	382.2	382.2	382.2	382.2
Equity Portion of convertible debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit on Share Subscription	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings	(990.9)	(2,889.1)	(4,252.4)	(3,665.6)	(1,470.5)	2,449.9	8,669.9
Shareholder's Equity	(990.7)	466.3	409.1	996.0	5,102.7	9,023.1	15,243.1
Total Liabilities and Equity	\$1,168.2	\$1,806.7	\$6,517.3	\$7,777.5	\$12,389.6	\$18,472.8	\$27,354.9

Appendix G: NAV Table

Tax Rate 35%

	2007E	2008E	2009E	2010E	2011E
Revenue	3,767	9,174	12,695	16,960	22,867
Total Cost	5,473	7,761	9,116	10,966	13,482
EBITDA	(1,705)	1,413	3,579	5,994	9,385
Depreciation	201	199	140	140	143
EBIT	-1,906	1,214	3,439	5,854	9,242
Interest Expense	191	311	62	-177	-327
EBT	-2,097	903	3,377	6,031	9,569
Less: Taxation	0	0	0	1,883	3,349
Less: CapEx	31	37	43	49	55
Add: Depreciation	201	199	140	140	143
After-tax FCF	-1,928	1,065	3,474	4,239	6,308
Terminal Value					96,372
Total FCF incl. Term. Value	-1,928	1,065	3,474	4,239	102,680
Applied Discount Rate	12%	14%	18%	22%	25%
Present Value of FCFF (on July 1, 2007)	62,559	57,313	48,315	40,954	36,301
- Debt	-333	-333	-333	-333	-333
+ Proceeds from options and warrents	7,327	7,327	7,327	7,327	7,327
Value to Equity (on July 1, 2007)	70,218	64,972	55,975	48,614	43,961
Value to Equity as at July 1, 2008	77,019	72,283	63,945	56,884	52,286
F.D. Shares O/S ('000S)	70,442	70,442	70,442	70,442	70,442
Value of Equity per Share	1.09	1.03	0.91	0.81	0.74



Appendix H: Comparables Table

Company Name	Market Cap	TEV	Last 12 Months						Next 12 Months			
			TEV/Rev	TEV/EBITDA	TEV/EBIT	P/Diluted EPS	P/TangBV	P/BV	TEV/Rev	TEV/EBITDA	P/EPS	
Printer sub-sector:												
Bowne & Co. Inc. (NYSE:BNE)	547.31	579.17	0.69	7.58	11.54	78.70	2.88	2.33	0.65	7.71	22.80	
Consolidated Graphics Inc. (NYSE:CGX)	972.14	1,114.66	1.11	7.62	11.03	19.45	3.68	2.66	1.01	6.76	15.60	
Deluxe Corp. (NYSE:DLX)	2,212.45	3,148.36	1.93	8.94	11.52	19.66	NM	NM	1.97	9.29	16.46	
Quebecor World Inc. (TSX:IQW)	1,601.93	4,187.46	0.70	8.02	19.76	NM	NM	0.97	0.70	6.77	19.44	
RR Donnelley & Sons Co. (NYSE:RRD)	9,602.96	13,253.66	1.35	8.90	13.28	22.41	NM	2.25	1.12	7.37	15.04	
Standard Register Co. (NYSE:SR)	339.07	389.96	0.44	10.90	57.84	NM	3.01	2.81	0.43	5.19	27.17	
Transcontinental Inc. (TSX:TCLA)	1,650.49	2,089.59	1.01	6.60	10.02	13.65	12.23	1.49	0.95	6.06	12.25	
Valassis Communications Inc. (NYSE:VCI)	855.62	2,105.88	1.82	17.80	21.13	19.22	NM	4.85	0.87	8.07	13.02	
High	0.00	0.00	1.93	17.80	57.84	78.70	12.23	4.85	1.97	9.29	27.17	
Low	0.00	0.00	0.44	6.60	10.02	13.65	2.88	0.97	0.43	5.19	12.25	
Mean	0.00	0.00	1.13	9.54	19.52	28.85	5.45	2.48	0.96	7.15	17.72	
Median	0.00	0.00	1.06	8.46	12.41	19.56	3.35	2.33	0.91	7.07	16.03	
New Media Sub-sector:												
eBay Inc. (NasdaqNM:EBAY)	43,151.83	39,867.55	6.28	16.28	21.15	35.62	11.68 #	3.85	5.17	13.40	22.67	
IAC/InterActiveCorp (NasdaqNM:IACI)	9,884.38	9,167.82	1.43	9.69	14.81	51.55	17.82 #	1.10	1.34	9.55	19.80	
Kaboose, Inc. (TSX:KAB)	294.18	281.01	12.14	109.25	NM	NM	22.45 #	4.56	7.67	45.92	72.04	
Yahoo! Inc. (NasdaqNM:YHOO)	37,789.17	36,201.32	5.54	17.70	24.46	55.13	6.95 #	4.29	6.54	16.23	50.15	
High	0.00	0.00	12.14	109.25	24.46	55.13	22.45	4.56	7.67	45.92	72.04	
Low	0.00	0.00	1.43	9.69	14.81	35.62	6.95	1.10	1.34	9.55	19.80	
Mean	0.00	0.00	6.35	38.23	20.14	47.43	14.72	3.45	5.18	21.27	41.16	
Median	0.00	0.00	5.91	16.99	21.15	51.55	14.75	4.07	5.85	14.81	36.41	





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