Growth Stocks Weekly

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Performance: Year ended April 1996 **116.9%**; 1997 **28.1%**; 1998 **36.4%**; 1999 **39.4%**; 2000 **180.9%**; 2001 **-50.5%**; 2002 **18.7%**; 2003 **28.8%**; 2004 **166.7%**; 2005 **28.2%**; 2006 **153.3%**; **2007 8.8%**

Junior Gold and Natural Resource Sector Report

November 25, 2007

Following the Money … a Well-Pedigreed Shell

FLAGSHIP INDUSTRIES INC. (FII-TSX Venture)

Daily chart: High C0.90, Low $0.36, Last Trade $0.55

Before I explain **Flagship Industries (FII-TSX Venture)**, and why there's a tremendous opportunity here to get in on the ground floor of what will inevitably become another top-tier performer, I want to be sure that you fully understand what is driving this resource-sector bull market.

The world is not prepared to produce the needed natural resources

From 1980 until 2001, there was a deep bear market in precious metals and natural resources. Commodity prices were under constant pressure, during this time. As the years dragged on, many of the companies that mined and produced natural resources went out of business. The larger mining companies cut their exploration staffs. Mines were shuttered and drilling rigs were decommissioned.

But inevitably even the longest winters eventually turn to spring ... and similarly the deepest bear markets eventually give way to the bulls. Spurred by soaring global demand, the tide turned. The global commodities bull market has finally arrived.

But wait just a moment ... it takes years to ramp up a mining operation ... even one that was previously operational. It takes even longer to explore for minerals ... prove that the deposit is economical ... overcome the environmental hurdles ... and then build the infrastructure to produce the finished product.

The stark reality is that the infrastructure to locate and dig up the resources the world needs is simply not in place. You can't just press a button and increase the supply of zinc, copper, silver or gold. And this plays right into the hands of the junior explorers...

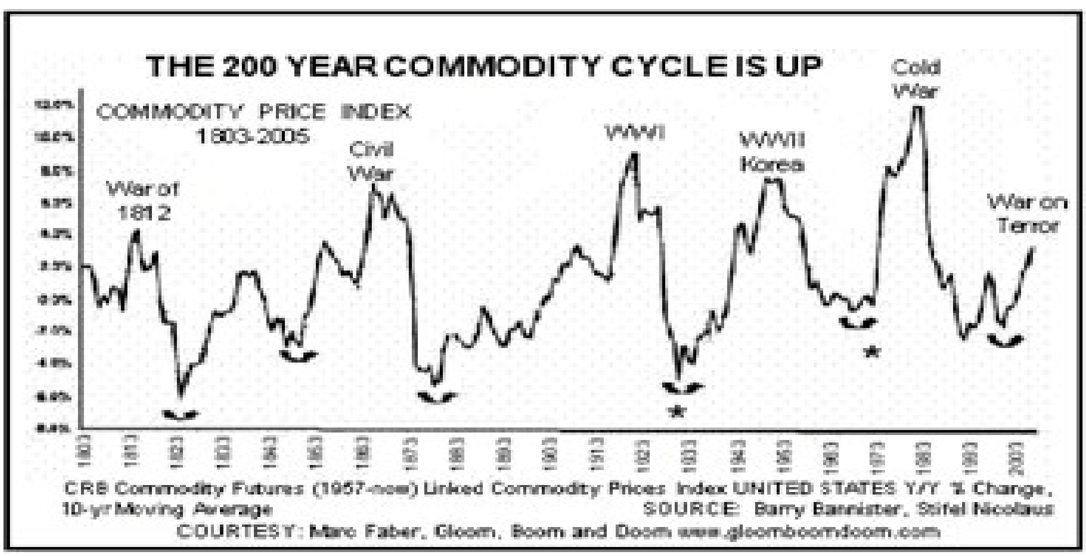
Junior exploration companies are essential to the world's quest for resources

After years of production, most of the world's largest mines are experiencing declining reserves and increasing costs. Combine this with skyrocketing demand and you've got a squeeze play of massive proportions. And the big mining companies need new deposits... and they need them now!

If the big mining companies need deposits so badly, why don't they just go and find them? They have the money. Why do they need the juniors? Many of the big mining companies got rid of their best people during the bear market. Some companies even closed their exploration departments. They don't have the in-house talent to do it themselves. And the best and brightest in the field won't work for the big mining companies anymore.

If a geologist or executive working for a major is involved in a discovery, he might get a pat on the back and a bump on his Christmas bonus. Meanwhile, the same guy working for his own company can make millions. This is why the junior resource companies are absolutely essential to the natural resources industry. The major mining companies MUST replenish their diminishing reserves. And in most cases, the only way to do that is to buy out or joint venture with the juniors. And when they do, they pay up ... BIG TIME! This is why we do what we do with early-stage, well-managed junior resource stocks.

Like all markets, the natural resources market runs in cycles. Take a look at the chart of the 200-year commodities trend below. As you can see, the typical cycle from bear market to bull market lasts about 10 to 20 years.



True to form, the bear market we just left lasted 20 years and the bull market we're in now began just six years ago. That means, historically speaking, we can expect this bull market to last another 5 to 15 years... at least!

To make money, you have to follow the smart money …

GSW subscribers and readers in the resource investment game will likely know of Frank Giustra, a Vancouver local Howe Street veteran with a knack for creating wealth. Beginning his investment career in 1978 with Merrill Lynch, he quickly found his stride after joining Yorkton Securities in 1980, opening the firm's offices in London, Zurich, and Paris, establishing the

Natural Resource Group, and making valuable international institutional connections along the way. By 1990 he was President of Yorkton and in early 1995 was appointed Chairman and CEO.

At Yorkton, Giustra pioneered the business of financing mining projects located in emerging economies around the world, raising over $3 billion in equity for the resource sector during the years he headed the firm. Giustra left the investment banking business in 1996 during the mining slump and irrational exuberance of the high-tech frenzy to found Lions Gate Entertainment. NYSE-listed Lions Gate subsequently grew into one of the largest independent film companies in the world and generates $1 billion a year in revenues.

In 2001, sensing the bottom of the gold price and start of a US-dollar decline, Giustra returned to the mining finance business, this time as a merchant banker. As Chairman and one-third shareholder of Endeavour Financial, he initially focused on gold, but soon moved into other metals and subsequently oil & gas and uranium.

Endeavour launched a number of mining companies, including Wheaton River, a small gold mining company with an initial market value of about $20 million. With an aggressive business plan, backed by Endeavour Financial, and with gold lifting off a double-bottom in the US$255 area, Wheaton started acquiring gold mines around the world, managing to build the sixth largest gold mining company and the world's lowest cost producer in just three years. After merging with Goldcorp, Wheaton became a US$7 billion market cap company with US$480 million of cash reserves. Other mining and energy companies followed, including Bema Gold, Northern Orion, Oriel Resources, Silver Wheaton, Eastern Platinum, Bolivar Goldfields, and Bankers Petroleum. Endeavour organized the raising of US$1.7 billion in debt and equity to develop their assets. In 2005 UrAsia Energy was launched, raising an initial $500 million in equity at $1.80 per share. UrAsia was recently acquired by Uranium One at almost $8 per share.

Purposefully low profile, Giustra vaulted to centre stage in North American media last June when he announced he was personally pledging US$100 million plus half of his future earnings from his resource investments to help launch the Clinton-Giustra Sustainable Growth Initiative (CGSGI). His donation to the initiative is being matched by a $100-million commitment from Carlos Slim, a Mexican telecom billionaire, and rumoured to be the second richest man on earth.

The focus of this initiative is on alleviating poverty in the developing world, to build on the Clinton Foundation's successful track record of scaling-up development initiatives, and to bring together key stakeholders from the mining sector in a unified front to help people benefit long term in mining regions.

A new vehicle looking for an opportunity …

On May 25, 2007 Flagship Industries underwent a change of control and a new board of directors was appointed. The Company reorganized its business, financed to a savvy group of proven company builders, and is currently exploring future opportunities in the natural resource sector. What should become obvious from the following recent history is that parties associated with Frank Giustra and Endeavour control the company and call the shots.

On May 8, 2007, the Company had split its common shares on a 5:1 basis and there were several private transactions resulting in a change of control. Also, by June 1, 2007, the Company completed a non-brokered private placement of 40 million units at a price of $0.05 per unit for gross proceeds of $2,000,000. Each unit consisted of one common share of the Company and one common share purchase warrant, with each warrant exercisable into one common share of the Company at a price of $0.10 per share until June 1, 2009. In connection with the private placement, a 5% finder’s fee of 2,000,000 Units was paid to Endeavour Financial Ltd.

Participating in this private placement was the Giustra family’s Radcliffe Foundation for 17 million units, in addition to it acquiring 9 million shares privately. With the warrants included and, if exercised, the Foundation would own approximately 48.17% of Flagship’s common shares on a partially diluted basis. Endeavour Mining Capital acquired 3.9 million units in the financing, as well as 2.5 million shares privately. If the warrants were exercised, Endeavour would own 13.47% of the common shares on a partially diluted basis. Frank Guistra acquired 5 million shares privately, as well as 2 million shares and 2.765 million units through Fiore Capital, and a further 500,000 shares privately and 500,000 units through Omega Holdings Ltd. Frank Giustra together with Fiore and Omega directly and indirectly controls 18.5% of Flagship on a partially diluted basis. There are currently approximately 74.6 million common shares issued and outstanding.

Effective June 1, 2007, the Company entered into a financial advisory and office rental agreement with Endeavour. Endeavour charges $5,000 per month for the advisory services and $1,000 per month for the rent, and may also earn success fees on certain transactions. The agreement is for an initial term of one year, and will run month to month thereafter until terminated.

On June 15, 2007, the Company granted 1,250,000 stock options to Endeavour and a director of the Company. Each stock option is exercisable into one common share of the Company at a price of $0.67, with an expiry date of June 15, 2012.

On July 4 and July 24, 2007, the Company granted a further 2,750,000 and 100,000 stock options, respectively, to charities and directors of the Company, including Gordon Keep, a new director of Flagship and Managing Director, Corporate Finance for Endeavour Financial. Each stock option is exercisable into one common share of the Company at a price of $0.75 with expiry dates of July 4 and July 24, 2012. In addition, the Radcliffe Foundation acquired options to purchase 2 million shares of the Company at a price of $0.75 per share for five years.

Conclusion

For patient investors Flagship Industries offers an early-stage entry into what will likely evolve, like so many other shells we have similarly positioned in over the years, into Endeavour's "next big thing". Don't let all the "cheap" stock and large number of outstanding shares deter one's expectations when Endeavour is involved. The more shares in hand, the bigger the deal seems to be. UrAsia comes to mind with its 100+ million shares of cheap stock at maybe a nickel per share, as an empty shell. They quickly completed a $1.80 per unit ½-billion financing and followed up a couple of months later with another ¼ billion or so at $2.40 on the way to a takeout at about $8 a year later. As a shell, Flagship could sit on the shelf for months, even years. Or, next week we can see a deal announced as, in typical fashion, it starts to run up as rumours swirl about a pending transaction. Typically, the share price will double from current levels even before we know a deal has been found. Keep in mind the shares are relatively illiquid, and may require some patience when accumulating positions under $0.70.