Growth Stocks Weekly

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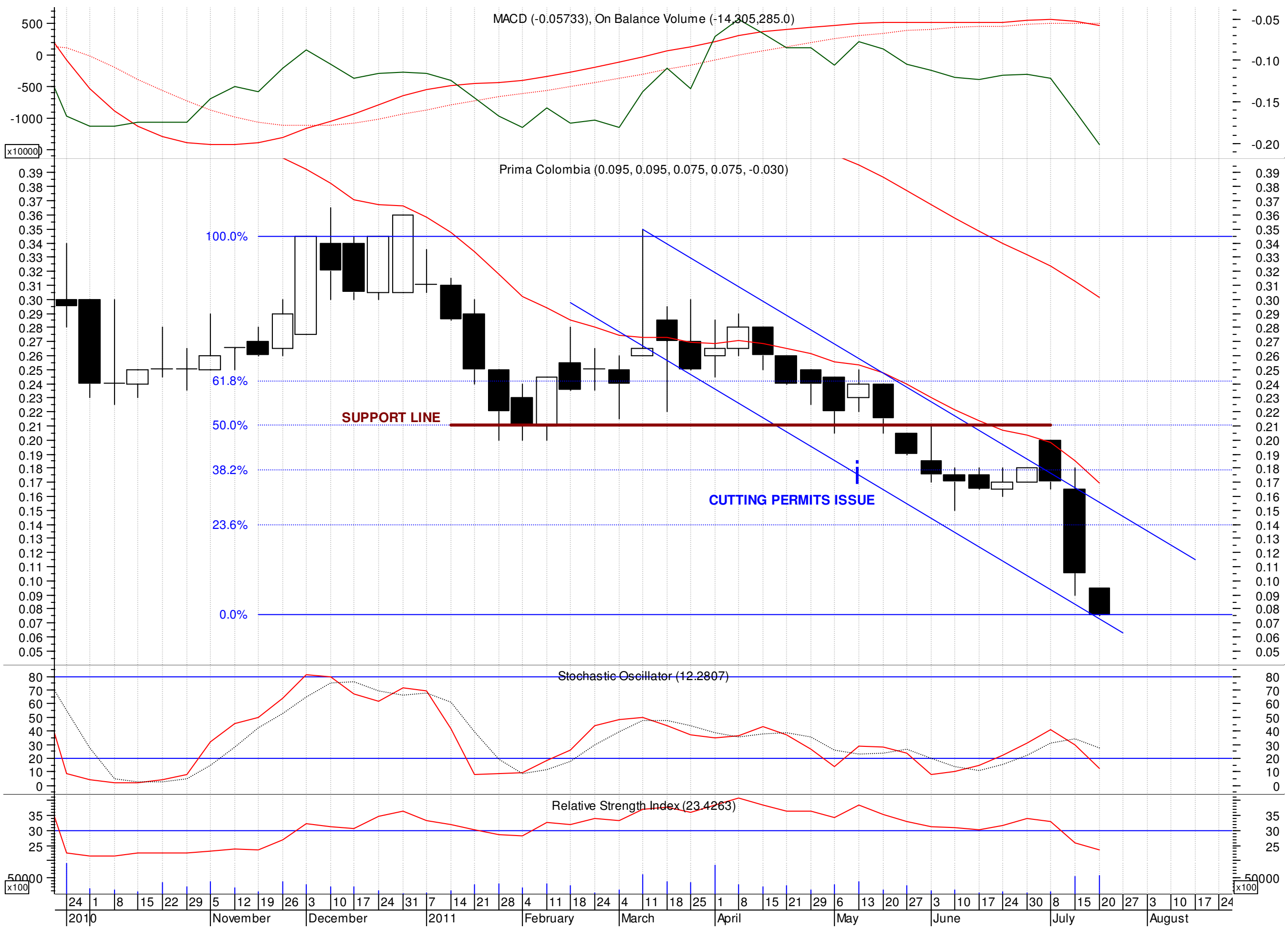
YE Apr30 Δ: '96 116.9%; '97 28.1%; '98 36.4%; '99 39.4%; '00 180.9%; '01 -50.5%; '02 18.7%; '03 28.8%; '04 166.7%; '05 28.2%; '06 153.3%; '07 8.8%; '08 -25.2%; '09 -50.3%; '10 162.3%; '11 2.6%

Junior Gold and Natural Resource Sector Report

July 20, 2011

PRIMA COLOMBIA HARDWOOD (PCT-TSXV)

UPDATE REPORT



Daily chart, High $0.365, Low $0.075, Last trade $0.075

CRISIS: DANGER AND OPPORTUNITY?

The catchy expression "Crisis = Danger + Opportunity" has rapidly become nearly as ubiquitous as The Tao of Pooh and Sun Zi's Art of War. Notwithstanding that this so-called proverb of oriental wisdom is a grossly inaccurate misrepresentation of the Chinese characters from which it purportedly translates, it continues to offer an intrinsically satisfying anecdote as a rhetorical device and an optimistic "call to action". We suspect there are strong grounds for optimism and action in the circumstances PCT finds itself, and hence an opportunity for investors.

It’s been one week since Prima Colombia Hardwood announced that it has run into a permitting hurdle since the Ministry of Environment took over the regional governments’ jurisdiction for issuing cutting permits, effective May 18. But what particularly troubled us was disclosure that the Ministry "more recently" cancelled the initial cutting permit already issued to PCT by the regional government of Choco. This resulted in an immediate cessation of operations which were just gearing up to commence cutting and significant startup costs. The uncertainty of the timing simply left no other option for PCT given the nature of the logistics and overhead involved to mobilize crews and equipment.

Given this turn of events, and that it apparently followed several meetings and the establishment of a working team to process the company's permit applications with the Ministry of Environment, there is sufficient reason for investors to question the company’s established in-country "good will" and relationship with the Ministry. Whether this is a simple bureaucratic issue, a jurisdictional dispute, pressure from environmentalists, or something more or less benign is not yet clear.

Review

PCT was organized and initially funded by Endeavour Financial Group of Vancouver, still the company’s Financial Advisor. PCT is a Colombian hardwood timber development, production and marketing company run by the scions of the Hayes family through a management contract with Hayes Forest Services Limited. Hayes Forest Services is part of the Hayes Group of companies which has been a leader in British Columbia’s forest industry since 1922, and has been recognized as one of Canada’s 50 Best Managed Companies (2004-07). It is strategically positioned to efficiently supply growing Asian demand for hardwood, with first-mover advantage in Colombia through the application of specialized Canadian forestry technology, backed by management's decades of experience in the forest industry.

Commercial production was expected to commence Q3 2011 using selective, environmentally friendly, low intensity helicopter logging, with no "clear cutting". PCT has a high value timber / high margin production model projecting EBITDA per cubic meter (“M3”) of $50 - $80, with volume projected to ramp up by 180,000 M3 per year to 720,000 M3 by 2015. This has now certainly been pushed back by at least a quarter, but management remains confident that the new cutting-permit process will support their business interests.

On a fully diluted basis, key management’s share and option position totals about 43% of the 327 million shares and options outstanding. The company’s venture capital / investment banking group controls at least another 25%, so insiders’ interests are very aligned with that of retail and institutional investors.

Also of note is Endeavour’s already well established presence in Colombia in the mining and oil and gas sectors, and the charitable work done by several affiliated or closely related charitable organizations. This has certainly created some goodwill throughout South America, and bolstered the organization’s overall international profile.

Relationships may well help to quickly clear up any issues that have now resulted in a shelved $10 million financing, local layoffs and a cessation of operations. The effects on local employment and businesses are material. Meanwhile the company finds itself dependant on its equity backers for access to sufficient interim working capital. Given the market’s quick sell-off and apparent support at the $0.075 level, with diminishing volume, we believe a favourable discount has developed, already pricing in the worst case expectations.

We are adding 250,000 shares to the GSW Model Portfolio now that the dust has settled from this news – in the $0.075-0.08 trading area. The GSW Model Portfolio originally acquired 250,000 shares at an average $0.252 per share in March 2011.

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