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March 2007

Seismic Services Sector
Listing: TSX Venture

FirstGrowth Capital (FGC.V)

Buoyant exploration expenditures provide FirstGrowth Kinetex a window of opportunity to build a seismic services business through organic growth fuelled by new technology and acquisition of related and complimentary service businesses.

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Initiation Report

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I certify that this report represents my own opinions.

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Our research complies with all FSA recommendations as may arise out of CP172 and CP176, i.e., that it be independent of any broking or trading interests; and CP205, i.e., that it comply with standards for objectivity.

Key Points

26 February, 2007
Price: C$1.25

Strong demand for natural resources are maintaining a buoyant resource services sector and providing FirstGrowth Capital with a window of opportunity to build a seismic services business through organic growth fuelled by new technology. Opportunities exist to expand into related services such as data library services, reservoir management, and data processing through acquisition.

- ***New imaging technology is creating new growth opportunities***

  Ever rising E&P costs and development risk are leading clients towards companies like FirstGrowth's Kinetex subsidiary which uses multi-component full wave digital technology to acquire higher quality seismic data. This offers greater predictive ability and reduced exploration risk for clients.

- ***Attracting the mining industry as well***

  Higher imaging quality plus the ability to distinguish between oil, gas and minerals in the subsurface has in recent years attracted the mining industry to the seismic acquisition technology Kinetex is using adding a second growth leg to the business. Mining projects accounted for 30% of 2006 revenues and this will rise to 50% this year.

- ***Strong demand is yielding full capacity utilisation***

  A growing customer base, significant repeat business and good visibility on future projects with $8.5m already confirmed for 2007, is sustaining full capacity utilisation for Kinetex's two seismic data acquisition crews, giving visibility of revenues and a healthy 32% EBITDA margin

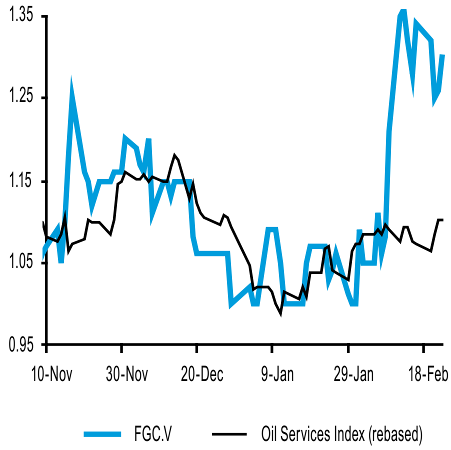
- ***FirstGrowth Capital's first acquisition is easily scaleable...***

  At present FirstGrowth's ability to increase revenue and earnings is constrained by Kinetex's available capacity of two crews but the business is easily scaleable through the addition of crews. The current strength of the oil and gas seismic services market and the addition of mining as a customer group is giving Kinetex more business than it can handle and will easily support a third crew.

- ***... favouring growth by this method over acquisitions***

  The ease with which a crew could be deployed and the reasonable prospect of full utilisation adding at least $6m to revenues annually favours for the time being the commitment of fresh equity financing to this use rather than the riskier path of acquisition.

Price chart (C$)



Value of Equity

Core Scenario	C$31.2m
Value per share:	C$1.34
Optimistic Scenario	C$48.0m
Value per share:	C$2.06
Pessimistic Scenario	C$11.4m
Value per share:	C$0.49

Company details

Quote	
Shares	
-TSX Venture	FGC.V
Hi-Lo last 12-mos. (C$)	1.45 - 1.25
Shares issued (m)	23.3
Fully diluted (m)	36.3
Market Cap'n (C$m)	29.1
Website:	www.firstgrowthcapital.ca

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Overview

FirstGrowth Capital Inc. is a seismic data services company listed on the TSX-V (Toronto). It was incorporated in February 2005 and was initially listed on the TSX Venture exchange TSX-V as a Capital Pool Company.

FirstGrowth Capital completed its qualifying transaction with the acquisition of 98.63% of the issued and outstanding stock of Kinetex and received final approval from the TSX-V on 26 October 2006 and as of that date became a Tier 2 (industrial issuer) company listed on the TSX-V.

Kinetex

Started in 1997, Kinetex Inc. based in Calgary, Alberta is an oil, gas and mining exploration services company, providing seismic data acquisition, seismic drilling and seismic data services both in Canada and internationally. About 30% of Kinetex's business comes from the mining industry, more specifically uranium and diamond mining. The business is profitable, growing and expected to report 2006 full year sales of about $9.5m and pre-tax earnings of approximately $1.3m. Kinetex is the sole subsidiary of FirstGrowth Capital and carries out the only operating business of the company.

An integrator of the latest data acquisition technology

Seismic services is a large and fragmented market place, with competitors ranging from large multinational groups to small specialised companies operating locally such as Kinetex and the customer base is similarly diverse. The attraction of Kinetex is in the technology it uses to perform the seismic services it offers and the experience of its key personnel which differentiates it from most of the competition. Kinetex is an integrator of the latest land seismic data acquisition technology, using multi component full wave digital VectorSeis technology that can read gravity corrected P wave and two orthogonally defined shear wave components more giving precise imaging than conventional 3D analogue imaging. More importantly, it can differentiate between, oil, gas, water, sand, coal etc and can determine geological fractures. This greater precision can save clients money and importantly allows the company to service the mining industry which provides an extra leg of growth.

Full utilisation and strong demand allows mobilisation of 3rd crew

Kinetex has been operating two crews at full utilisation for most of 2006 and these two crews remain more than fully occupied so far in 2007. The continued strength of demand, the good workload visibility that Kinetex enjoys and its growing reputation all support the view that Kinetex needs to bring on a third crew. With financing arranged for the additional equipment needed a third crew is planned to be operational in H2 2007. Management is confident that the third crew will also be fully utilised.

New technology's precision is particularly attractive to mining.

Mining accounted for around 30% of Kinetex's business at the end of 2006. However, the increased precision of the technology Kinetex deploys is proving increasingly attractive and business for mining customers is growing rapidly and may account for as much as 50% of sales in 2007.

Data processing and Library services could provide future growth

While seismic data acquisition is at present pretty much the sole business of Kinetex and therefore FirstGrowth, management sees potential for the company to become a seismic data company, with data processing and licensing of the data library being additional businesses to the existing data capture business. For the time being though the company is operating in the most valuable part of the seismic services value chain, and both management and financial resources are being concentrated on building this part of the business

Field Operations

Source: FirstGrowth Capital

Valuation

Approach

We have valued FirstGrowth Capital on a discounted cash flow basis under a range of scenarios. Investors should bear in mind that at present FirstGrowth has one operating subsidiary, Kinetex, and to all intents and purposes one revenue and cash flow stream from that business. For the purposes of our valuation we have not anticipated any acquisitions that might change the profile of the company and have concentrated on the prospects of Kinetex within its core competence of seismic data acquisition.

While FirstGrowth plans to expand into data interpretation, reservoir management services and develop its own seismic data library, development of these services is at an early stage and has not been included in the valuation.

We have prepared three valuations:

- ***A central case***
  Our central scenario assumption is that growth in seismic services continues at the current level, allowing the company to add new crews steadily, reaching ten crews by 2012. We assume a slight cyclical improvement in gross margins in 2007 returning to previous levels in 2008.
- ***An optimistic case***
  For the optimistic scenario, we have assumed a buoyant market allows a more aggressive approach, adding more crews at a faster rate and maintaining higher margins for longer.
- ***A pessimistic case***
  Our pessimistic scenario sees slower market growth and a far less aggressive approach by the company, adding crews only as cashflow allows, and peaking at six crews. This slower pace is accompanied by slower spending on sales.

Results

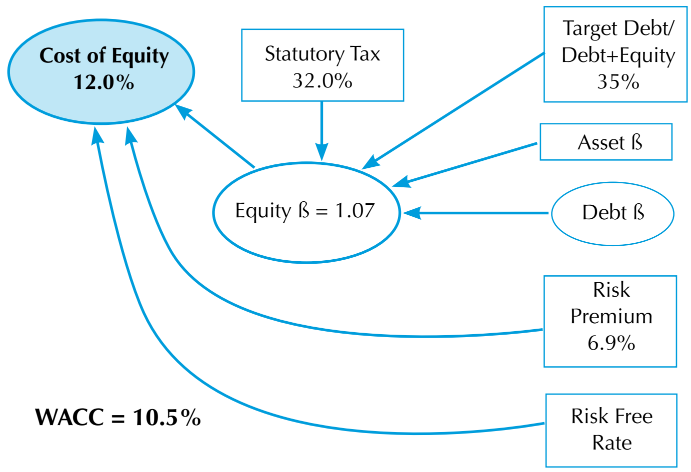
Applying our free cash flow forecasts gives a central case valuation of the company of C$31.2m or C$1.34 per share based on the number of shares currently issued and outstanding. Our optimistic valuation, with a more optimistic outlook for market growth, Kinetex's ability to increase the capacity utilisation of existing crews and to add additional crews, results in a value of C$48.0m or C$2.06 per share. Our pessimistic case, which assumes much more testing markets in the future and a far slower rate of adding crews, values FirstGrowth at C$11.4m or C$0.49 per share.

Comparisons with similar companies are not particularly easy due *inter alia*; to the diverse nature of the industries, the differing size of the quoted players in the industry, and even in the geophysical space, and the availability of reliable data for the comparables. Many of the smaller companies which are of a similar size to FirstGrowth are poorly covered or not covered at all which makes comparisons on the basis of earnings multiples of questionable value. Furthermore, the sample size is small making average multiples questionable at best.

Valuation Summary (C$m)

	Core	Optimistic	Pessimistic
Expected value of firm	38.2	55.0	18.4
Add: starting cash + new funds	3.7	3.7	3.7
Total Current Value for Firm	41.9	58.7	22.1
Less: starting & new debt	5.5	5.5	5.5
Total Value to Equity Claims	36.4	53.2	16.6
Less: Options/Convertibility	5.2	5.2	5.2
Ordinary Equity Holders	31.2	48.0	11.4
Value per share	**1.34**	**2.06**	**0.49**

Weighted Cost of Capital



Scenario Assumptions

Scenario	Core			Optimistic			Pessimistic		
C$'000	**2006E**	**2007F**	**2008F**	**2006E**	**2007F**	**2008F**	**2006E**	**2007F**	**2008F**
Revenues	**9,953**	**19,090**	**30,720**	**9,953**	**20,040**	**34,560**	**9,953**	**19,090**	**26,880**
- COGS	(5,766)	(10,832)	(17,741)	(5,766)	(10,655)	(19,958)	(5,766)	(11,072)	(16,128)
Gross profits	4,187	8,259	12,979	4,187	9,385	14,602	4,187	8,018	10,752
- Management charge	(350)	(1,825)	(1,760)	(350)	(1,725)	(1,650)	(350)	(1,825)	(1,680)
- Selling costs	(995)	(1,244)	(1,555)	(995)	(1,244)	(1,555)	(995)	(1,244)	(1,555)
EBITDTA	**2,842**	**5,189**	**9,664**	**2,842**	**6,416**	**11,396**	**2,842**	**4,949**	**7,517**
- Depreciation & amortisation	(1,220)	(3,504)	(6,637)	(1,220)	(3,630)	(6,602)	(1,220)	(3,508)	(4,886)
EBIT	1,622	1,685	3,027	1,622	2,786	4,794	1,622	1,441	2,631
- Interest	(258)	(622)	(540)	(258)	(622)	(540)	(258)	(622)	(270)
EBT	1,364	1,063	2,487	1,364	2,165	4,254	1,364	819	2,361
- Tax	(436)	(340)	(796)	(436)	(693)	(1,361)	(436)	(262)	(755)
Earnings	**927**	**723**	**1,691**	**927**	**1,472**	**2,893**	**927**	**557**	**1,605**
Gross margin	*42%*	*43%*	*42%*	*42%*	*47%*	*42%*	*42%*	*42%*	*40%*
Net margin	*9%*	*4%*	*6%*	*9%*	*7%*	*8%*	*9%*	*3%*	*6%*

Comparatives

Company	Code	Price	Market Cap (m)	EPS 2006	EPS 2007	PE Ratio (x) 2006	PE Ratio (x) 2007	EV/EBITDA Ratio (x)	Price/Sales (x) 2006	Price/Sales (x) 2007F
FirstGrowth Capital	**FGC.V**	**C$1.25**	**C$29**	**0.04**	**0.03**	**31.4**	**40.3**	**4.5**	**2.9**	**1.5**
comparatives										
Dawson Geophysical	DWSN	$42.46	$320	2.09	2.68	20.3	15.8	8.1	1.9	1.6
Geokinetics	GKNT.OB	$29	$156	0.71	2	40.8	14.5	n/a	0.7	0.5
Input/Output	IO	$14.12	$1,125	0.32	0.54	44.1	26.1	12.9	5.0	3.5
OMNI Eneregy Services	OMNI	C$9.36	C$146	1.1	0.68	8.5	13.8	n/a	1.4	0.9
TGC Industries	TGE	$8.15	$128	0.5	0.75	16.3	10.9	6.9	2.1	1.6
CGG Veritas	GA.PA	€165.00	€4,421	9.79	10.75	16.9	15.3	n/a	3.2	2.0
						24.5	**16.1**	**9.3**	**2.4**	**1.7**

Key Risks

Kinetex does not own the intellectual property

Kinetex neither owns nor does it have any exclusive rights to the technology it uses but it has been a beta test partner for the developer of the technology Input/ Output Inc a Texas based company. Competitors are free to buy and use the same equipment and software as Kinetex and Input/Output itself is a growing company that has made a number of acquisitions which could bring it into competition with Kinetex.

Dependence on key personnel

FirstGrowth's success depends heavily on the management team and in particular on Kinetex's founder Leonard van Betuw. The knowledge of the seismic survey business, the technology and the mining industry rests with him. Continued availability of the management team's services is not necessarily guaranteed and the loss of key personnel does present a risk of disruption to the business and the share price.

External market demand and pricing of natural resources

Crude oil consumption seems to be a significant determinant of E&P expenditure and to a lesser extent so is the long term price of oil. The level of seismic data acquisition services is clearly dependant on E&P expenditure so if E&P expenditure were to fall due to reduced demand or a decline in the long term price expectation, so would demand for data acquisition. The same is broadly true for mining, the driver being mineral and metal prices. Services companies' current buoyant state owes much to commodity prices and continuing high demand for natural resources is maintaining a level of prices sufficient to sustain buoyant levels of E&P and thus demand for seismic surveys. However, this is not guaranteed and a downturn would unquestionably limit the company's growth. Indeed, falling prices represent the biggest single risk factor to the company's growth in that they are directly correlated and entirely beyond management's control or influence.

Ability to raise finance in future

While FirstGrowth has been successful so far in raising the necessary finance to complete its qualifying transaction and is currently raising a further $7.95m to finance equipment for a third crew, future growth in general and acquisitions. The latter will not be achieved from cash flow for at least a couple of years, so should management decide to expand into reservoir management or data processing this is likely to require fresh equity, in which case the ability to raise sufficient equity funding will also present a risk to be considered. Should new shares be issued, existing holdings will be diluted. This is not so much a risk as a fact and a necessary accompaniment to raising the funds necessary for growth.

Competition

While competition does not seem to have been an issue recently, this is a highly fragmented industry with many participants, of all sizes. At present many of the competitors use older technology and have large investments in their inventory of survey equipment. Thus for a competitor to adopt the same technology as Kinetex, the often considerable cost of writing off existing equipment must be weighed up against the advantages of switching. While customers are happy to accept the use of the old technology and the oil and gas industry has been slow to adopt new technology, many competitors may judge that the additional business they might gain does not justify the cost of adopting the same technology as Kinetex. However, this situation will change as customer demand drives the adoption of new technology. Management estimate that they have perhaps a three year lead in terms of technology over similar sized competitors.

Corporate Overview

FirstGrowth Capital is an acquisition vehicle, set up by Gil Schneider and Vern Stromkins under the capital pool company rules of the TSX-V to enter the oil, gas and mining services market. Its qualifying transaction was the purchase last year of Kinetex, a small but growing and profitable provider of seismic data acquisition services. FirstGrowth Capital aims for future growth by growing Kinetex organically and by making further acquisitions. The identification, purchase and integration of suitable targets are an integral part of the company's business model.

Kinetex was started in 1997 by Leonard van Betuw to provide seismic services, primarily data acquisition, to the oil, gas and mining industries.

Kinetex has concentrated on using the latest technology to provide state of the art data acquisition for its clients. It has been a beta test partner for Houston based Input/Output's VectorSeis technology and has been using the latter's equipment and software operationally since 2003. Kinetex has built a loyal local client base, consistently winning repeat business.

The acquisition of Kinetex was funded by the issue of shares in FirstGrowth. 14m common shares of the company were issued to Kinetex shareholders, based on Kinetex having a net book value at the closing date of approximately $3,500,000. 2,182,800 of these were held in escrow to be released over six years, with 10% being released when the TSX approved the transaction. An additional 10,000,000 shares were issued to Leonard van Betuw (at an exercise price of $0.1 deemed by the TSX), these shares being escrowed and to be released over six years. In addition FirstGrowth issued a further 2,000,000 new share at $1 per share to provide additional working capital. Each fully paid up new share has 1 transferable warrant at an exercise price $1.75 per share for two years from the date of issue.

In addition the company issued 2,230,000 new options for directors, employees, investor relations and certain independent contractors.

Kinetex reported sales for the 9 months to 30th September of $7.279m and an estimated EBITDA of $2.383m increases of 117% and 268% respectively. It is expected to report FY sales of around $9.5m and EBITDA close to $3m. The sales figure fell slightly short of its anticipated $10m due to adverse weather conditions and the drawn out nature of the transaction with FirstGrowth.

At present Kinetex's business is concentrated on data acquisition which is by far the most important part of the seismic services value chain, accounting for around 80% in cost terms. The business is also almost entirely domestic and although negotiations are ongoing to carry out some work for non domestic clients, Kinetex is currently operating at full capacity in Canada and has more work than it can handle with two crews. Management guidance is for sales of $20m in 2007 but this is contingent on a 3rd crew being operational in H2. Services to mining companies will account for almost 50% of revenues in 2007.

FirstGrowth's corporate strategy is to grow its services business both through organic growth at Kinetex and the acquisition and or development of complementary services businesses such as data processing (ie, vertical integration) or reservoir management which is effectively a further use of the data acquisition technology. Although acquisitions remain a goal in the future, the scaleable nature of Kinetex's business and strong client relationships mean there is strong logic in concentrating available management resources and financing on organic growth at Kinetex, initially by the introduction as soon as possible of a third team.

Kinetex's business model follows the better mousetrap principle. It has chosen to build its business by using the latest and most sophisticated technology to offer customers a better quality of survey. Kinetex uses multi component full wave digital VectorSeis technology to deliver a more precise and more complete survey than those employing traditional 3D technology. The benefits include;

- Far more comprehensive data for the geologists to analyse
- The ability to distinguish between oil, gas, water, sand etc.
- Greater predictive capability
- A smaller ecological/environmental footprint

Most of these benefits reduce the risk of unproductive exploration for customers, which is obviously a serious attraction. As production costs continue to increase any advance which can help to contain those costs is highly valued by customers. As one of only a handful of independent contractors using this technology, Kinetex has both real growth opportunities and can charge a premium, to contractors using conventional 3D technology. Kinetex has a proven track record of delivering high quality data to its clients, a track record supported by regular repeat business.

Kinetex employs multi component full wave digital VectorSeis technology purchased from Input/Output Inc of Houston Texas and while it neither has ownership nor exclusive rights to the technology, it has built up years of experience in using the technology in the field and has sufficient trained key personnel to mobilise three survey crews. This confers significant advantage over its competitors of a similar size and indeed probably any in Canada.

Kinetex already has indication of sufficient business to be confident that it can keep a third team fully utilised and it has already trained the key personnel required to lead and carry out the critical roles in a third team. Management aims to introduce a third team as soon as possible, which realistically means for the H2. Kinetex will need to order VectorSeis sensors and software from Input/Output Inc and is currently raising the finance for purchase of the equipment. The cost of setting up a crew is between $6m-$7m depending on the number of sensors which cost about $3,000 each but an EBITDA margin of around 32% makes the payback period relatively short. Kinetex is ordering 1,000 new sensors for the existing crews to extend their capability and is currently putting in place the financing for this.

On 8 February the company announced, and subsequently increased, that subject to regulatory approval it would complete a private placement of up to $7.95m. The placing will consist of (1) a convertible debenture of $2.7m carrying interest at 10% for a term of four years. Each unit carries a half warrant for one share, with each full warrant exercisable at a strike price of $1.75; and (2) 5.25m units at $1.05, each unit consisting of one share and one warrant to purchase one additional share at $1.75.

The company has also negotiated its banking arrangements to make better provision for its working capital. In addition to a regular operating line of credit, and a term loan, it has negotiated with HSBC for project finance to provide working capital for specific contracts.

Although management mentioned last year that it held talks with possible targets in the data processing space, these did not prove suitable. Kinetex may instead pursue a course of organically building up its own data processing business, capitalising on Leonard van Betuw's strong links among both professionals and academics in the seismic community.

Importantly it does not see itself in any way as an industry consolidator as competitors of a size that could be considered a target do not use Kinetex's advanced technology and management consider the acquisition of businesses with outdated technology and lower margin to offer poor value. For the time being we anticipate all available management resource and financing will be devoted to scaling up Kinetex. Management projections for 2008 would suggest that a fourth crew will be deployed in that year.

Markets

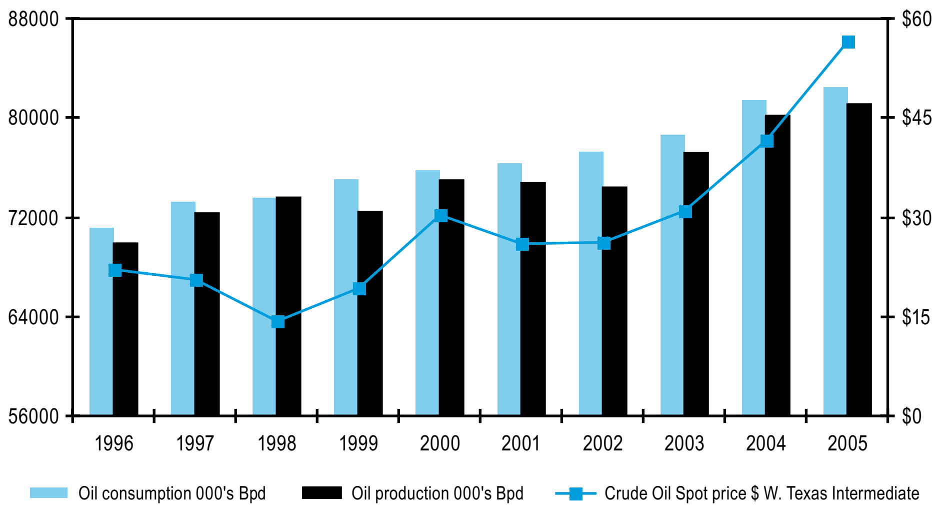
FirstGrowth operates through its subsidiary Kinetex in seismic services, a $5bn p.a. worldwide market, with between $500m and $700m in Canada alone, providing seismic surveys to the oil, gas and mining industries. The market is highly fragmented. Kinetex's current business is entirely domestic and with turnover just under $10m its market share is about 1.5% of the Canadian market leaving plenty of opportunity for growth. However, it has performed work abroad in the past and is currently bidding on a number of jobs outside Canada.

Input/Output Inc the leading supplier of multi-component full wave digital technology worldwide believes the seismic imaging market is currently nearer to $7bn with land data acquisition accounting for about $2.1bn. Furthermore it believes that the market is growing at a compound rate of about 8.8% and will exceed $10bn by 2010.

Kinetex serves two distinct customer bases, the oil and gas E&P market and the mining industry. The oil and gas market for seismic services is bigger and attracts the attention of most of the major seismic services businesses. Interestingly the biggest players, Western Geco, GGY-Veritas, PGS and Dawson appear to concentrate almost exclusively on oil and gas. So while Kinetex is not unique in serving the mining industry as well, the dual market provides it with added growth opportunities and there is probably less competition from large players in mining.

The accompanying chart, based on BP's 2006 statistical review of world energy, shows that oil consumption and production continues to increase worldwide. The price remains high, despite falls in recent weeks. In the last Lehman Bros half yearly survey of Oil and Gas companies, global exploration and production expenditure was estimated to grow by 21% in 2006 to US$261bn, with Canadian spend expected to be up by 14.6% to US$25.8bn. Two thirds of the companies surveyed expected spending to grow again in 2007, with a mean expectation of a 15% rise. The survey indicated that cutbacks were unlikely unless the recent drop in oil prices are sustained.

OIl trends, consumption, production and price 1996-2005



Source: BP statistical review of World Energy 2006

We mentioned in the overview what we believed to be the crucial importance of seismic services to both the oil and gas E&P industry and increasingly to the mining industry and the vital nature of the survey. Whether one buys into the theory that oil and gas are running out, which we don't, or that oil production has peaked, which we also don't, or not, it is probably non contestable that the most easily exploitable finds have been made. Consequently exploration and production are becoming more challenging and more expensive. There are a number of factors at work here and each presents growth opportunities for seismic services and Kinetex in particular.

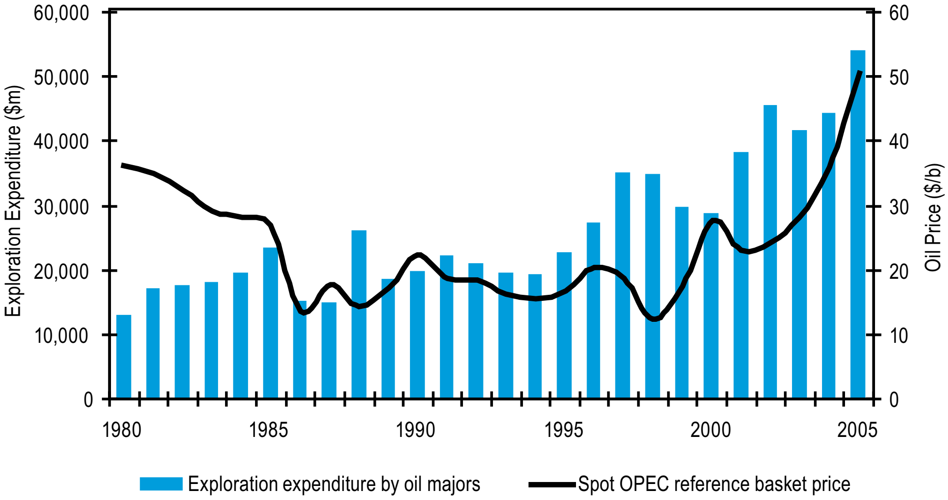
New discoveries are increasingly likely to be found in more challenging environments, either deeper offshore or in the more remote and climatically challenging regions on land. As a result the cost of exploration and drilling will rise sharply with the increased logistical problems and with this escalation so will the risks multiply. These risks include dry wells, drilling hazards, estimated to cost the industry in excess of $3bn annually and development risks, which include well location and planning and location of topside production facilities. The development costs are huge and poor decisions only increase them.

At the same time, the increasing cost and risk of new field development coupled with higher prices has meant that operators are now beginning to seek improved recovery factors in existing fields rather than leave oil in the ground and develop new fields. In many existing fields the percentage recovered is relatively low, typically between 20% and 40%.

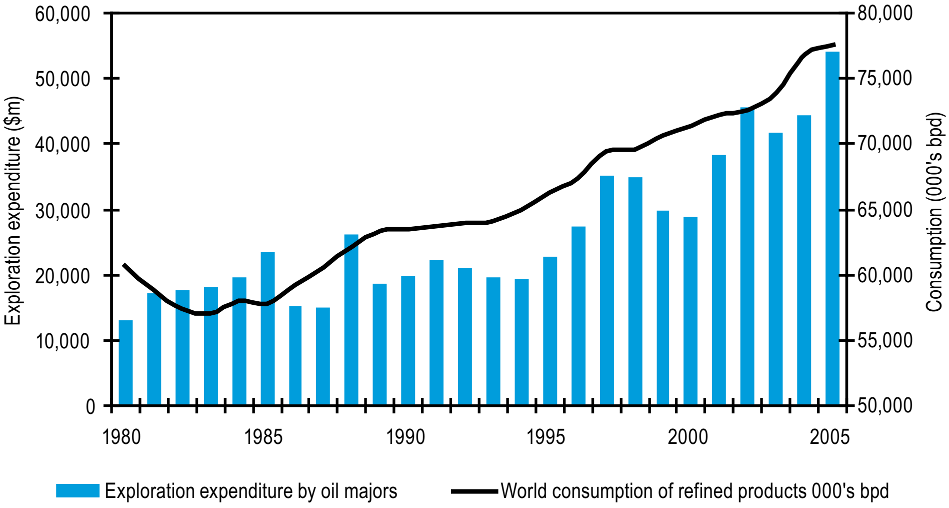
Current seismic survey industry practice

In order to understand the attraction of Kinetex over its competitors and the attractions of the new technology, we need to have a brief overview of seismic survey practice, a basic idea of what is being done and what the captured data is used for. Exploration and drilling operations are logistically complex and enormously costly. Seismic surveys are a crucial part of successful exploration. Seismic survey data is used to build up a picture of the earth's subsurface in the exploration area, which geologists can analyse and hopefully form an opinion as to the likely presence of mineral deposits. To form this picture, sound waves are passed through the earth's surface at multiple points and the echoes that bounce back are recorded. This recorded data is then processed and used to build geological models. The greater the quality of the data acquired, the lower the risk of unproductive drilling.

Exploration expenditure by oil majors 1980-2005



Exploration expenditure by oil majors and consumption of refined products



Source: OPEC

2D and 3D seismic

For the most part the oil and gas industries use a combination of 2D and 3D seismic surveys. 2D is an intersection of 2 axes, the horizontal axis representing distance and the vertical axis representing depth through the earth surface. A 2D survey typically records a series of seismic events along a long line. The principal advantages of 2D are it is relatively cheap and it covers a considerable distance, weighed against this are its lack of precision. 3D uses the same principles of recording a seismic event but this time in a grid pattern so an area is covered rather than merely a line, in effect a grid of 2D lines. There are many more data points so a more accurate model can be built. However, with many times more data points the survey is far more costly.

Both 2D and 3D use essentially the same data acquisition technology, which is probably around thirty years old. The seismic events are generated by either small explosive charges detonated just below the surface or more recently by VibroSeis Trucks. The resulting echoes are recorded by an array, line for 2D, grid for 3D, of recording devices called geophones to a magnetic tape or hard drive. The cost difference between the two methods arises because 3D uses many more geophones to capture a greater number of data points. The geophones are connected to the recording head by cables, usually miles of it, and connectors. This places a large logistical burden on the survey crews, with considerable man hours being expended on both laying out and connecting the geophone cables and repairing line breaks. Typically a survey crew would number about 50 and use around 180 geophones which would need to be moved around the survey area and reconnected.

What is now becoming clear is that there is a growing need for better seismic data to assist in location, planning and management and therein lie the business opportunities for Kinetex.

Where Kinetex differs

Kinetex uses a more sophisticated system to deliver its surveys, multi-component full wave digital VectorSeis technology survey, conferring considerable advantages over conventional 3D, namely:

- It records gravity corrected P wave and two orthogonally defined shear wave components
- Image fidelity is far superior to analogue 3D
- It can distinguish between oil, gas, coal, sand and water
- The VectorSeis sensors transmit a digital image out of the ground as opposed to the analogue image of traditional 3D
- Roughly a 6th of the number of sensors are needed compared to a typical 3D job
- Resulting in a far smaller field crew 12 versus 50
- Wire breaks, which take up 50% of a normal survey time, are a non issue, and future technology is 100% wireless
- The enhanced image fidelity allows Kinetex to service the mining industry

While in the past E&P companies have been content to rely mostly on 3D, it is becoming increasingly apparent that they are awakening to the greater potential of new technology such as multi-component full wave digital. With its higher quality image resolution and more comprehensive data allowing geologists to better identify geo hazards and differentiate between resources and reduce the risk of dry wells, we believe multi-component full wave digital or its equivalent will become the de-facto standard for seismic data acquisition. The relative scarcity of such expertise allows the likes of Kinetex to charge a premium over typical 3D, which in view of the reduced risks delivered customers are increasingly recognising as good value. The fact that the technology also brings lower operating costs for the acquisition companies is a double benefit yielding superior margins.

If we look at the seismic process in terms of its constituents or as a value chain, we see there are essentially four elements: planning, data acquisition, data processing and interpretation.

Planning, is essentially the where, what and how stage. Where the data acquisition is to take place, what type of survey is appropriate and how the data will be acquired. This stage usually involves the exploration company and service provider and determines the type of equipment to be used etc. The smallest part of the value chain in both time and cost terms.

Data acquisition is by far the most important part of the value chain in cost terms if not in terms of time. This is the most logistically complex part of the process, involving manpower, deployment and operation of specialist equipment, often in remote locations. It is also critical to the process, as the next steps, of processing and interpretation can only be as good as the data acquired. In cost/value terms data acquisition probably accounts for 80%. At present Kinetex concentrates exclusively on this part of the value chain which is the sweet spot of the industry now.

Data processing involves the use of specialized software and powerful computers to process the acquired data into a usable seismic model. After data acquisition this is the next most important stage in the value chain in terms of cost accounting for perhaps 15%. Although requiring neither the manpower nor the logistical input of data acquisition it nevertheless has a far higher time value. This is an area of opportunity for Kinetex and is a logical vertical integration but we expect activity from Kinetex in this area only when financial and management resources allow.

VectorSeis sensor

Source: FirstGrowth Capital

Once the data is processed into usable seismic images geophysicists analyse and interpret the image to determine the presence of trapped hydrocarbon or other mineral deposits. This final link in the value chain as well as being the most time consuming part of the process also offers the least opportunity for a company like Kinetex to participate as customers consider the interpretation to be proprietary and highly sensitive information as well as being price sensitive information in stock market terms.

Kinetex currently concentrates solely on data acquisition as that is the largest and most lucrative part of the value chain. A related area, in that it can use the same technology to increase the recovery factor and delay abandonment costs on existing fields. This is known as reservoir management. The improved imaging capability of multi-component full wave digital technology makes it a valuable tool in this part of the production process. The process uses the same equipment and can use the same personnel but the survey introduces a 4th dimension – time. Currently much of the work is time lapse 3D but the advantages of greater predictive power are as evident in reservoir management as elsewhere. Kinetex would be able to take on reservoir management work relatively easily, either by putting together a new crew, which would require additional financing to the tune of between $6m - $10m or by redeploying an existing crew should capacity utilisation fall. We see this as a future growth avenue for FirstGrowth but not in the near future.

If further evidence were needed of the growing attraction of the VectorSeis technology used by Kinetex, one needs only to look at the recent agreements to use this technology. On the 13th December 2006 Input/Output, the supplier of VectorSeis, announced that it had been awarded a contract to supply 14 complete land seismic imaging systems to Oil and Natural Gas Company Ltd, (ONGC) India's national oil company. This contract includes 20,000 VectorSeis sensors and is worth over US$60m. In addition BP and Apache have both begun using full wave VectorSeis systems in the last two years, in particular the new Firefly wireless system.

While these examples might suggest that competition for Kinetex has intensified, we believe that this isn't really the case, and these examples are more of an illustration that the larger companies are embracing the technology and where they lead the smaller independents will have to follow. Also it is clear from the examples used, that these would be for far bigger projects than Kinetex has hitherto undertaken or is realistically likely to undertake in the near future.

Seismic data acquisition to the mining industry is the second leg to Kinetex's current business. It accounted for 30% of revenues in 2006 and management expect the contribution to reach 50% in 2007. Mining is experiencing many of the same influences as oil and gas. On the one hand demand for metal commodities from booming Asian economies such as China and India has lead to higher prices in recent year but on the other hand E&P costs have also climbed and with recent environmental awareness permits have become harder to obtain and with more conditions attached. The twin benefits of higher quality data and smaller environmental footprint that acquisition technology such as that deployed by Kinetex offers is becoming increasingly attractive to miners. The greater predictive capability that multi-component offers to geologists, in helping to distinguish between minerals present is resulting in increased demand for such services and Kinetex is operating at full capacity with particularly high activity in uranium exploration.

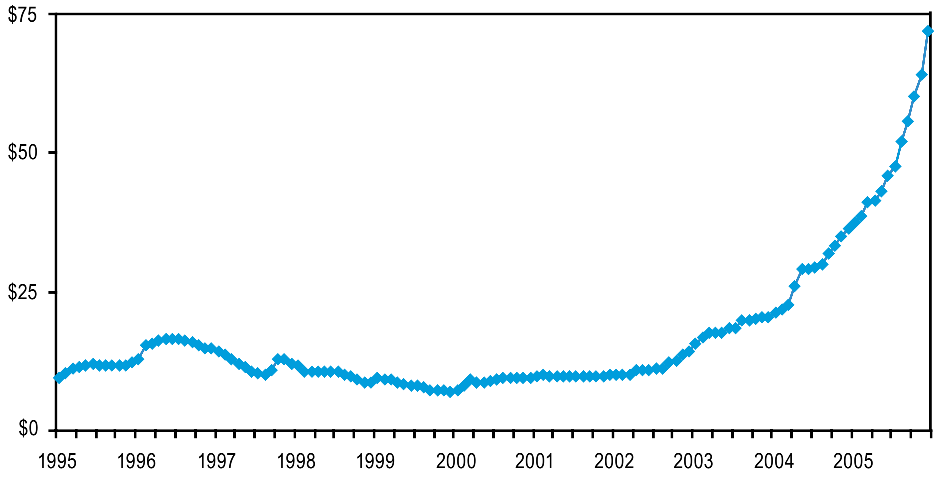
The principal use for uranium is as fuel for nuclear power plants generating electricity. Demand from this source is set to drive growth in prices, production and exploration. The table below shows the number of reactors in operation worldwide, as well as those under construction, planned and proposed as of Jan 2007. The World Nuclear Association (WNA) estimates 66,529 tons of uranium will be required in 2007. The WNA also estimated that world production in 2005 was some 41,600 tonnes. In other words, production is currently satisfying only some 60-65% of demand and the number of new reactors planned or already under construction will further spur demand. The Cameco Corporation estimates that this increase could be in the order of 24% between 2005 and 2015.

World Nuclear Power Reactors 2005-2007 and 2007 Uranium requirements

	Nuclear electricity generation 2005		Operable reactors Jan 2007	Reactors under construction Jan 2007	Planned reactors Jan 2007	Proposed reactors Jan 2007	Uranium required 2007
	kWh bn	%e	No.	No.	No.	No.	tonnes
Belgium	45.3	56	7	0	0	0	1079
Canada	86.8	15	18	2	2	0	1836
China	50.3	2	10	5	13	50	1454
Czech rep.	23.3	31	6	0	0	2	550
France	430.9	79	59	0	1	1	10368
Germany	154.6	31	17	0	0	0	3486
India	15.7	2.8	16	7	4	15	491
Japan	280.7	29	55	2	11	1	8872
S.Korea	139.3	45	20	1	7	0	3037
Russia	137.3	16	31	3	8	18	3777
Slovakia	16.3	56	5	0	2	0	299
Spain	54.7	20	8	0	0	0	1473
Sweden	69.5	45	10	0	0	0	1468
Switzerland	22.1	32	5	0	0	0	575
Ukraine	83.3	49	15	0	2	0	2003
UK	75.2	20	19	0	0	0	2021
USA	780.5	19	103	1	2	21	20050
World Total	***2626***	***16***	***435***	***28***	***64***	***158***	***66529***

Sources: WNA and IAEA

Spot price U_3O_8 (US$ per LB) 1995-2006



Source: Trade Tech

Current expectations of demand have already caused prices to climb sharply. According to the International Atomic Energy Authority (IAEA), plans for new reactors have led to high levels of demand and price, spurring investment in exploration. In 2004, worldwide exploration expenditures totalled over US$ 130 million, an increase of almost 40% over 2002, rising further to nearly US$ 200 million in 2005. Exploration expenditure in Canada amounted to C$44m in 2004, of which C$26m was on grassroots exploration in Saskatchewan. The IAEA sees Canada as the country most able to increase its production of uranium; therein lies the opportunity for Kinetex.

Competition

The seismic services market is highly fragmented, as is the oil gas and mining services market in general, market participants range from large multinational businesses such as Western Geco (a Schlumberger subsidiary), PGS, Compagnie Generale de Geophysique (GGY) and Veritas DGC, which is being acquired by GGY, through mid sized players such as Dawson Geophysical to small operators like Kinetex.

Western Geco a Schlumberger subsidiary is currently the world's largest seismic company with annual revenues of around $2.4bn. It has the most extensive seismic crews and data processing capability in the industry and the world's largest seismic data library. A full service multi-national business, serving major oil and gas players, it is hard to think of it as a competitor.

Compagnie Generale de Geophysique (GGY) with revenues of €1.6bn and 4,000 employees is also a full service multinational seismic company. It had more than 12 land crews performing seismic surveys last year as well as offshore services, data processing and reservoir management services. It operates multi-nationally. It has had one digital crew operating in Canada. However, its sheer size would suggest that it is not likely to be competing for the same projects as Kinetex. It has just finalized a merger with **Veritas** an $880m turnover seismic services company with 2,800 employees for $3.1bn, creating a group to rival Western Geco in size.

Veritas DGC, with almost $900m in revenues is also at the other end of the scale to Kinetex and is again a full service company. However, it does operate in Canada and it does have crews operating a rival technology from Sercel a subsidiary of Compagnie Generale de Geophysique. It has considerable experience in deploying this technology. Its soon to be completed merger with GGY will create an industry giant but is unlikely to impact Kinetex.

Dawson Geophysical is a medium sized full service seismic services company which operates primarily in the US with 13 land based data acquisition crews providing 2D, 3D and some multi component surveys. With 1,000 employees and revenues of $168m it is still much larger than Kinetex but in view of its concentration on the US we don't view it as a direct competitor.

Trace Energy is a private Canadian company and closer in size to Kinetex although still larger. Trace operates mainly in Northwest Canada and the US. It currently has 3 active crews in Canada and also operates Input/Output's VectorSeis technology. Trace works closely with Apache.

Kinetex doesn't appear to run into competition from Trace much, which seems to concentrate on working for the larger oil and gas clients.

Generally speaking competition does not seem to be a problem at present. The world geophysical market is believed to be in excess of $5bn, with Canada alone being between 10%-14% of that. Input/Output's own market research suggests that there are about 620 land based crews operating around the world. It also estimates that growth in the seismic market will accelerate to a CAGR of over 8% between 2008 and 2010. Kinetex's experience with multi component acquisition technology gives it an edge over smaller competition and the relative scarcity of multi-component crews will keep utilisation rates high.

For the time being Kinetex is the sole subsidiary and operating business of FirstGrowth. Although management have talked about acquisitions in the past, the ease with which Kinetex can be scaled up dictates that any available finance be applied to such purpose. At this early stage in FirstGrowth's evolution this may be a bonus as the company already has firsthand experience of how time consuming and disruptive acquisition can be. It also means that limited management resources won't be stretched too thinly dealing with integrating different and possibly competing cultures. At this stage simplicity is definitely a virtue.

Setting sensors

Source: FirstGrowth Capital

For FY 2006 we expect reported sales to be just over $9.5m, EBITDA to come in just short of $2.8m and pre-tax earnings to be in the region of $1.3m. In 2005, Kinetex reported sales of $5m, EBITDA of $850k and a profit of $107k. Despite the distractions of being acquired in a lengthy process and the impact of poor weather conditions 2006 was still a very good year for Kinetex operationally. It operated with two seismic data acquisition crews for the whole of 2006.

To provide its data acquisition services Kinetex uses equipment and software purchased from Input/Output Inc of Houston, which includes sensors, the VectorSeis recording system and full wave 3 component imaging software. The VectorSeis technology is regarded as the leading seismic imaging technology. The capital investment required to put a crew in service is somewhere between $6m and $7m depending on the number of sensors required for a shoot. Sensors cost $3,000 each and the recording equipment and software probably add another $0.5m. Equipment is depreciated as computers, which means accelerated depreciation rates.

Kinetex started providing services to the oil and gas industry but expanded its services to include the mining industry in the last three years as demand increased. Operationally this is a very good fit, as the oil and gas sector is usually imaged in the winter months and after a 6-8 week spring break-up when the thaw restricts access, the mining industry imaging takes place over the summer, keeping Kinetex's crews busy throughout the year. Each crew is typically around 12 -15 people and Kinetex employs 25 full time management and supervisory staff, with crew personnel being hired as needed. Kinetex used to average 40 employees during a year but has recently been operating with over 70 due to its increased work load. Part of this extra workload is due to Kinetex being able to operate more effectively in the summer than operators using conventional equipment and 3D technology.

Two crews currently have a combined capacity of 3,000 sensors and a theoretical capability of generating $12,000,000 annual revenue at full utilisation. As the size of job is continuing to increase it is difficult to talk about a typical project. For much of last year the two crews would each tackle about 2 projects per month with a target value greater than $250,000. In the last quarter and so far this year the projects have been bigger.

On the 8th January, Kinetex announced it had entered into a $1.6m contract with Hathor Exploration Limited to provide seismic surveys to explore for uranium in the Athabasca Basin of Northern Saskatchewan. The company will perform all data acquisition on Hathor's Midwest NE property and will use the latest technology from Input/Output, a radio telemetry-based VectorSeis system to collect over 20 million seismic traces. This project is about 50% complete. The company will also work on a further $1.8m project for Hathor.

Currently the management is guiding for an increase in revenues for 2007 to $20m, an increase of just over 110%. Management is confident that it can achieve this despite the delay in mobilising a third crew. The company recently announced that it already had business worth $8.5m confirmed for 2007. To put a fully equipped third crew in the field will require additional capital to fund the capital investment. We estimate that the third crew will be operational for the second half of 2007. $20m will be a stretch and will require full utilisation of all crews, an ability to cope with adverse weather better than they did in 2006. An advantage is that senior management will be fully concentrating on delivering growth without the distraction of the Kinetex transaction.

The full utilisation the company is experiencing now, with uranium exploration growing rapidly will help achieve financial targets and the company can be flexible in assigning manpower to the larger projects to speed up the work with the existing crews. Importantly management can also have a degree of confidence in its projections due to the strong repeat business Kinetex is generating from clients such as Hathor Exploration, Cameco, Arapaho, True Energy, and Harvest among others.

Although FirstGrowth/Kinetex is in the happy position of having its two crews operating at full capacity with sufficient visibility of future projects such that management can guide with confidence to revenues of $20m this year with a 27% EBITDA margin of $5.5m followed by $35m and $10.9m in 2008 there are a couple of caveats.

Kinetex did not quite achieve the sales that management had hoped for this year, originally expecting some $13m at the time of the offer, although not officially forecasting this. Even so there are mitigating circumstances, the administrative burden placed on Leonard van Betuw during the acquisition and poor weather conditions more recently.

New funding removes concern that growth may be capital constrained by available funds for operations. The third crew will be funded by the current round of financing and if necessary by the loan from HSBC. A fourth crew might need further capital, but the exercise of warrants and conversion of debentures may well be sufficient. It really isn't until beyond 2008 that cash flow starts to reach levels where Kinetex could contemplate expansion without recourse to fresh funding.

Projects for mining companies tend to be easier on working capital with payment being typically one 1/3rd on mobilisation, 1/3rd part way through and the balance on completion, with the customer paying mobilisation costs. Oil and gas contracts are more of a drain on working capital, with the customers typically expecting to pay once they have the processed data, which can be anything up to 40 days after the project, is completed. The company hopes to announce the conclusion of a new financing arrangement with HSBC soon.

Financing at present seems to be the main factor that could hold revenues back and will need to be successfully raised if management are to achieve their targets. We believe $19m for 2007 is possible, especially in light of the recent confirmation of orders for 2007. However if funding were not completed to put a third crew in the second half, although the probability of that not happening is admittedly remote, and working capital finance is not put in place for the large contracts that Kinetex can attract now it is better known, progress will be slower and the targets will be missed.

In 2007 we are forecasting a lower net earnings figure, of C$723k, despite a doubling of revenues. This is in the main due to 2007 being a transition year, when Kinetex operates for the first time as a subsidiary of a publicly quoted company having formerly been in private ownership. Investment in new equipment to expand the business is high, with a corresponding increase in both the rate of depreciation and the overall charge. Similarly increased borrowings to fund working capital have lifted the interest charge from C$258m to C$622m, while the costs of raising new equity have also impacted earnings.

Financials

Forecast Profit & Loss

Year ending December ('000s)	2006E	2007F	2008F	2009F
Revenues	**9,953**	**19,090**	**30,720**	**43,930**
COGS	(5,766)	(10,832)	(17,741)	(25,479)
Gross profits	4,187	8,259	12,979	18,450
Management & corporate costs	(350)	(1,825)	(1,760)	(1,936)
Selling costs	(995)	(1,244)	(1,555)	(1,944)
EBITDTA	**2,842**	**5,189**	**9,664**	**14,571**
Depreciation & amortisation	(1,220)	(3,504)	(6,637)	(7,102)
EBIT	1,622	1,685	3,027	7,469
Net interest expense	(258)	(622)	(540)	(540)
EBT	1,364	1,063	2,487	6,929
Tax	(436)	(340)	(796)	(2,217)
Earnings	**927**	**723**	**1,691**	**4,712**
Dividends	—	—	—	—
Retained earnings	**927**	**723**	**1,691**	**4,712**
Gross margin	*42%*	*43%*	*42%*	*42%*
Net profit margin	*9%*	*4%*	*6%*	*11%*

Forecast Cashflow

Year ending December ('000s)	2006E	2007F	2008F	2009F
EBIT	1,622	1,685	3,027	7,469
Depreciation	1,220	3,504	6,637	7,102
(Increase) decrease in debtors	(1,991)	(1,827)	(2,326)	(2,642)
(Increase) decrease in inventory	—	—	—	—
Increase (decrease) in creditors	480	422	576	645
Net cash from Ops	**1,332**	**3,784**	**7,914**	**12,573**
Tax paid	(436)	(340)	(796)	(2,217)
Dividends	—	—	—	—
Net Interest received (paid)	(258)	(622)	(540)	(540)
New equity	2,110	6,037	1,020	—
New deposits (borrowings)	2,300	3,100	—	—
Replacement cap-ex	—	(1,174)	(1,250)	(2,011)
Replacing crew kit	—	—	—	—
New team Cap-ex	—	(7,000)	(13,000)	(6,500)
Capital expenditure	(2,480)	(8,174)	(14,250)	(8,511)
Net cash from financing	**1,236**	**1**	**(14,566)**	**(11,268)**
Net increase (decrease) in cash	**2,567**	**3,785**	**(6,652)**	**1,305**

Forecast Balance Sheet

Year ending December ('000s)	2006E	2007F	2008F	2009F
Net fixed assets	7,828	12,498	20,111	21,520
Cash	4,167	7,952	1,300	2,605
Debtors	3,572	5,400	7,726	10,367
Current Assets	**7,739**	**13,352**	**9,026**	**12,973**
Total Assets	**15,567**	**25,850**	**29,137**	**34,493**
Trade creditors	(2,892)	(3,315)	(3,890)	(4,535)
Net Current Assets	**12,675**	**22,535**	**25,246**	**29,958**
Financial (creditors) debtors	(3,116)	(6,216)	(5,400)	(5,400)
Net Assets	**9,559**	**16,319**	**19,846**	**24,558**
Capital and reserves	6,522	8,632	14,669	16,505
New issues	2,110	6,037	1,836	—
Retained earnings	927	1,650	3,342	8,053
Capital Employed	**9,559**	**16,319**	**19,846**	**24,558**

Source: Objective Capital

Appendix: Management

Management & Directors

Gil Schneider

President, Chief Executive Officer and Director, Member of the Audit Committee

Mr. Schneider began a career in management consulting in 1977 as Regional Sales Manager of Versa Services, one of Canada's largest service management organizations. Mr. Schneider left Versa Services, a Toronto Stock Exchange listed company with revenues in excess of $500m and 15,000 employees, in 1992 as the Vice President of Western Canada Sales. In 1992 Mr. Schneider pursued a consulting career and was Vice President of Operations of Restauronics, a national food services management company owned by the former President and Chief Executive Officer of Versa Services. In 1993 Mr. Schneider negotiated the acquisition of the Community Care Purchasing Group. This group was a network of health care agencies in the Province of British Columbia partnering to share their best strategies for improving service quality and cost performance. In 2000 Mr. Schneider sold his interest in the Community Care Purchasing Group to ARAMARK Corporation and signed onto a five year consulting contract as Manager, New Business Development, which concluded at the end of 2004. ARAMARK has annual trades in 19 countries with revenues in excess of $10 billion dollars. While at ARAMARK Mr. Schneider was instrumental in negotiating a contract with the Vancouver Coastal Health Authority valued at over $100m. In 1999 Mr. Schneider became President of VentureCorp Capital Inc., a venture capital pool corporation listed on the then CDNX, which was subsequently transformed into Bioteq Environmental Technologies Inc (TSX-V:BQE) ("Bioteq"). Mr. Schneider has subsequently resigned from that position but retains an equity position in Bioteq.

Vern V Stromkins has 40 years experience in banking and finance, and currently provides consulting services to G & F Financial group. He has specialized in the sourcing, identification and financial analysis of new mid-market commercial businesses with growth potential and in real estate financing. He has also been responsible for preparing innovative financial packages for business with strong potential. He became CFO and secretary of VentureCorp in 1999, which subsequently became Bioteq and although he has resigned from that position, he retains an equity position in Bioteq.

Bill G Calsbeck brings over 25 years of capital markets and micro-cap experience to FirstGrowth. Bill began his career in Banking and Trust services and after several years moved into the Human Resource field providing consulting services to clients such as the Vancouver Stock Exchange, Expo 86, MDA, and several major financial institutions. His duties extended from executive recruiting and board Member selection to financial planning, mergers and acquisitions, IPOs, and capital-raising. He brings a great deal of diverse experience to FirstGrowth, having been involved in a wide variety of industries such as Oil and Gas, High Tech, Biotech, and Communications, and in raising hundreds of millions of dollars for client firms, both in equity and in capital market buying. His focus for FirstGrowth is on areas such as market awareness, liquidity and communications.

Leonard van Betuw co founded Kinetex in 1998. On graduating with a BSc in Geophysics from the University of Saskatchewan in 1987, he began his career as a field service technician with Veritas Geophysical, currently known as Veritas DGC. Later he joined Western Geophysical in Western Canada and Venezuela where he was part of a regional management team in Venezuela with Pioneer Exploration. He also held a senior management position with Airborne Resource Development. From his management experience gained at Veritas, Western Geophysical, and Airborne, he founded NRG Services and served as President and COO for five years before selling the business to his partners. He has extensive field experience in over one hundred projects in numerous locations around the world. His technical background includes integrated quality control, 3D seismic survey design, data processing and seismic modelling. His extensive practical experience in economics and management provide a strong basis for Kinetex Inc.

Appendix: Capital Pool Companies

In Canada, the TSX-V has approved a programme which allows newly created companies, called Capital Pool Companies, with little or no cash, no assets and no operating business, to go public and raise funds from a relatively small number of investors, a minimum of 200 and list shares inexpensively on the TSX-V, so they can be traded. The process allows venture capitalists to form a company at relatively modest cost. These companies must conduct a reverse takeover/merger or acquire the assets of a business or venture (a qualifying transaction), within 18 months of listing on TSX-V. The initial funding allows the company to conduct this search and funding for the transaction can then be raised by issuing and placing further stock when required. Once the qualifying transaction is completed and approved, the company ceases to be a capital pool company and becomes a normal listed company on TSX-V.

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Gabriel Didham, CFA
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Simon Miller has over 25 years in finance. He was previous head of research for Bryan Garnier and managed funds for both Sagitta and Elysian. He is a former rated analyst.

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