

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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## Alberta Star Development Corp. (TSXV: ASX, OTCBB: ASXSF, F: QLD) – Adoption of Shareholder Rights Plan; Full Permitting Received on Eldorado South

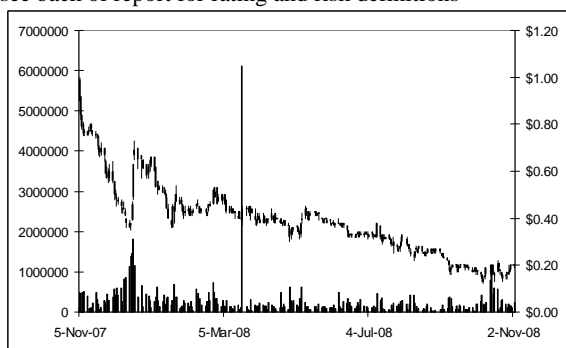
Sector/Industry: Junior IOCG/Uranium Exploration

www.alberta-star.com

### Market Data (as of November 4, 2008)

Current Price	\$0.195
Fair Value	\$0.50 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	\$0.12 - \$1.00
Shares O/S	104.69 mm
Market Cap	\$20.41 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.13
YoY Return	-78.3%
YTD TSXV	-67.1%

\*see back of report for rating and risk definitions



### Investment Highlights

- The company has adopted a shareholder rights plan to ensure shareholder equality in the event of a takeover bid.
- The “Class A” – 5 year drill permit for the Eldorado South IOCG and Uranium project has received final approval; permitting 75,000 meters of drilling over 5 years. Permitting is critical to the success of the company’s operations.
- An additional 6,256 hectares of additional land has been added to the Eldorado South property through staking.
- The 2008 drilling campaign is complete, totaling 17 holes and 2,700 meters. Results are pending.
- The company has appointed Mr. Michael Bersh, Ph.D as their Chief Geologist. The company also appointed Mr. Brian Morrison to the Board of Directors.
- ASX is in a solid cash position. The company’s working capital alone, we estimate, accounts for \$0.16 per share.
- We maintain our BUY rating on the company with a lower fair value estimate of \$0.50/share (down from \$0.78/share).

### Key Financial Data (FYE - November 30)

(C \$)	2005	2006	2007	2008 9 mo
Cash and Cash Equivalents	11,841,868	30,149,153	23,151,345	19,390,530
Working Capital	11,885,123	30,224,674	22,201,966	17,638,358
Mineral Assets & PPE	14,113	107,424	556,478	504,811
Total Assets	11,978,824	30,798,020	24,384,800	20,068,427
Net Income	(2,832,810)	(11,630,209)	(7,916,250)	(5,193,345)
EPS	(0.06)	(0.14)	(0.08)	(0.05)

Alberta Star’s Eldorado-Contact Lake landholdings total over 116,633 acres and encompass five former uranium and silver producing mines. They have identified numerous uranium and silver prospects on their property, and are also exploring for a large IOCG system.

**Shareholder Rights Plan**

In a recent press release dated October 14, 2008, the company announced the adoption of a shareholder rights plan in order to protect their shareholders. The rights plan extends the minimum expiry period for a takeover bid to 60 days and requires a bid to remain open for an additional 10 business days after an offeror publicly announces it has received tenders for more than 50% of the company's voting shares.

The company states that the principal purpose of the rights plan is to ensure that all shareholders will be treated equally and fairly. The plan also provides both shareholders and the board with adequate time to properly consider a takeover bid and if necessary, possible alternatives. The board of directors of the company is not currently aware of any pending or threatened takeover bid and is implementing the Rights Plan in the normal course of corporate governance.

**PROPERTY UPDATE****Permitting**

In our last update, we reported that the company was waiting on further permitting regarding their Eldorado South IOCG & Uranium property. The company has now received final approval for their "Class A" – 5 year drill permit which they applied for in April 2007, allowing for 75,000 meters of drilling. Permitting is valid on the Eldorado/Glacier Lake property until April 26, 2013, and on the Contact Lake property until August 24, 2012.

The company is now permitted to drill on the entirety of its IOCG and Uranium landholdings consisting of approximately 47,199 hectares. **ASX has worked hard to build a long lasting relationship with local companies, communities, and in particular, the Sahtu Dene and Métis peoples in the Sahtu Region.**

**The company is only one of a few to obtain drilling permission from the Sahtu First Nations group that controls land rights in the Great Bear Lake region. Permitting is critical to the success of the company's projects as it allows the company to complete uninterrupted, comprehensive exploration work, as well as joint venture the project.**

**Staking**

The company has staked an additional six mineral claims totaling 6,256 hectares at the Northwest extension of their Eldorado South IOCG and Uranium property. The Eldorado South property now totals 25,500 hectares of prospective land. Aside from the company's 2007 geophysical survey program, this land has yet to be explored or drilled. The company has identified several large radiometric anomalies up to 3.5 km long, and believes they suggest a potential near surface uranium target.

**Drilling Update**

The company completed a number of drilling programs on Eldorado/Contact Lake IOCG and Uranium property targets. Overall, 17 holes totaling 2,700 meters were drilled on the Eldorado Contact Lake property including: 536.5 meters in six holes at the K4 Uranium target; 1,005.7 meters in five holes at the Skinny Lake IOCG and Uranium target, and; 802.9 meters in three holes at the K2 IOCG target. Samples have been submitted to Acme Analytical Laboratories Ltd. in Vancouver, British Columbia for assaying.

After the release of our previous report, which updated on drilling results, the company submitted further 2007 drill assay results from the K2 IOCG target. Highlights are as follows:

- K2-07-14 intersected 40.50 meters of 0.361% Cu and 2.83 g/t Ag as well as 36.5 meters of 0.340% Cu;
- K2-07-17 intersected 10.50 meters of 0.30% zinc, and;
- K2-07-16 intersected 1.5 meters of 1,467 g/t Ag and 0.32% Cu

### ***Management Appointments***

**Mr. Brian Morrison, Director** – Mr. Morrison received a Bachelor of Commerce degree from the University of Northern British Columbia in 2004 and completed the Canadian Securities Course in 2006. Mr. Morrison has spent the past four years working in the area of public company administration. Currently, Mr. Morrison is a consultant for TSX-V listed Junior Mining Companies. Prior to that he was Manager for Public Companies at Computershare Investor Services.

**Michael Bersch Ph.D, Chief Geologist** – Dr. Bersch holds a Ph. D in geology from the University of New Mexico. Most recently he served as Assistant to the Vice President for Research, Director of Central Analytical Facility, and adjunct professor of Geology at the University of Alabama, where he taught courses in economic geology, analytical instrumentation, physical and historical geology. Dr. Bersch is a licensed professional geologist (Alabama), AIPG certified geologist and a Fellow in the Society of Economic Geologists. Dr. Bersch has extensive experience having worked in precious metals, base metals, uranium, and oil and gas exploration and development for over 20 years on projects in the US, Australia, Canada, and Latin America. He was a project manager with two successful gold mining operations which included the Golden Reward Mine located in South Dakota as VP of Exploration with Moruya Gold Mine NA, the Pauper’s Dream mine located in Montana and as Director and VP of exploration with Pangea Resources Ltd. He also holds a Law Degree from the University of Alabama School of Law and is a licensed attorney in the State of Alabama. Dr. Bersch served on the Investigation & Enforcement Committee of the Alabama Board of Licensure for Professional Geologists which monitors the practices of Alabama licensed professional geologists.

### ***Outlook on Uranium***

Uranium prices have dropped by about 67% after achieving a record high of US\$136/lb in 2007, and are currently trading at US\$45/lb. The following table shows uranium prices since 1981.



We have not made any changes to our short and long-term outlook on uranium prices. We have maintained our positive long-term outlook on prices based on increasing demand for nuclear energy and projected shortage in supply. In the short-term, although we do not expect prices to go higher, we believe the supply-sensitive uranium market will keep prices at current levels.

### Financials

At the end of August 2008, the company had \$19.39 million, and \$17.64 million, in cash and working capital, respectively. In the first 9 months of FY2008 (ended August 2008), the company recorded a net loss of \$5.19 million (EPS: -\$0.05), compared with \$3.02 million (EPS: -\$0.03) in the same period in FY2007. The company significantly lowered its burn rate (cash spent on operating and investing activities) in the first 9 months of FY2008, to \$0.42 million per month versus \$1.06 million per month in FY2007 (12 month period). The table below shows the company's cash and liquidity position.

(C\$)	2005	2006	2007	2008 (9 mo)
Working Capital	11,885,123	30,224,674	22,201,966	17,638,358
Current Ratio	150.3	65.9	14.7	10.2
LT Debts/ Assets	-	-	-	-
Monthly Burn Rate (incl exploration costs)	(164,607)	(813,781)	(1,057,707)	(421,202)
Cash from financing activities	11,875,590	28,072,662	5,496,206	30,000

**Stock Options and Warrants:** At the end of August 2008, the company had 9.1 million stock options outstanding with exercise prices ranging from \$0.35 to \$1.00, and remaining contractual life between 0.42 years to 2.92 years. All options are currently out of the money. The company has no outstanding warrants at this time.

**Conclusions:** Assuming the company will continue to burn cash at the same rate as the first 9 months of FY2008 (\$0.42 million per month), we believe the company's cash will easily be sufficient to fund working capital and exploration for the next two years.

**Valuation**

As mentioned in our previous report, although the Eldorado-Contact Lake Property has a historic resource estimate, we believe the historic resource estimates of the tailings do not represent the company's potential. Therefore, we have continued to value the company based on the average ratio of enterprise value (EV) to mineral assets (book value) of peers. As shown in the table below, our comparable analysis gave a fair value estimate of \$0.50/share, compared to \$0.78/share in our previous report. Our valuation dropped primarily due to the drop in shares prices of the comparables used in the analysis.

Relative Valuation						
	Symbol	Price	Enterprise Value	Mineral Assets	EV / Min. Assets	
1	Titan Uranium Inc.	TUE	\$0.52	\$19,018,913	\$67,739,484	0.28
2	Triex Minerals Corp.	TXM	\$1.15	\$11,412,614	\$21,143,867	0.54
3	Alberta Star Development Corp.	ASX	\$0.35	\$24,174,298	\$24,103,208	1.00
4	Western Uranium Corporation	WUC	\$1.44	\$29,606,274	\$19,922,525	1.49
5	Ur-Energy Inc.	URE	\$1.79	\$93,604,875	\$61,242,692	1.53
6	Energy Fuels Inc.	EFR	\$0.97	\$37,126,561	\$20,085,244	1.85
7	Crosshair Exploration and Mining Corp.	CXX	\$0.82	\$68,334,952	\$35,932,950	1.90
8	Uranium Power Corp.	UPC	\$0.36	\$25,198,823	\$11,313,122	2.23
9	Strathmore Minerals Corp.	STM	\$1.34	\$83,708,562	\$19,709,810	4.25
					<b>Average</b>	<b>1.67</b>
				<b>Fair Value</b>	<b>\$0.50</b>	

\* Share prices are YTD averages

\* Enterprise Value = Market Capitalization + Debt - Cash

\* Mineral assets of ASX include CAPEX estimate of \$4.5 million for the next 12 months

\* *Note - We have continued to discount the book value of the company's projects by 30% because of its relatively higher costs of exploration compared to its peers (due to the remote location, accessibility, and infrastructure of its projects).*

**Rating**

**Based on our valuation model and review of the company's progress since our previous report, we maintain our BUY rating on the company, but lower our fair value from \$0.78 to \$0.50 per share. Our fair value estimate reflects an upside potential of 156% from the current price. The company is in a solid cash position. Its working capital alone, we estimate, accounts for \$0.16 per share. We note that the company has made good progress since our previous report; the decrease in our valuation is merely reflective of the drop in share prices of the comparables in our relative valuation model.**

**Risks**

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company has not defined any NI 43-101 compliant resource estimates and does not currently have any operating mines.
- The success of drilling, expansion and determination of favorable resource estimates are important long-term success factors for the company.
- The value of the company depends on commodity prices, primarily uranium prices.

We consider Alberta Star a high-risk investment opportunity as the company is still in its exploration stage and does not have any NI 43-101 compliant resource estimates. At this stage, we therefore rate the shares a **RISK of 5 (Highly Speculative)**.

**Fundamental Research Corp. Equity Rating Scale:**

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

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

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

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

**Fundamental Research Corp. Risk Rating Scale:**

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

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

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

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

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

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The distribution of FRC's ratings are as follows: BUY (83%), HOLD (7%), SELL (3%), SUSPEND (7%).

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