

### West Mountain Capital Corp. (TSXV: WMT) – Q1 in Line with Expectations

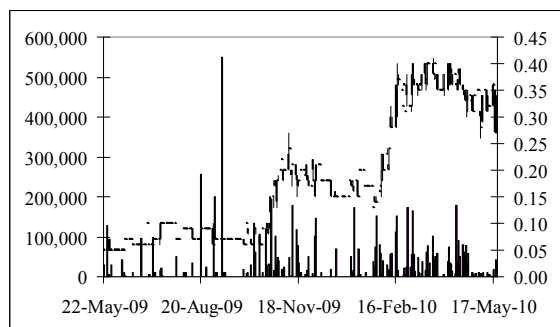
Sector/Industry: Environmental Services

[www.westmountaincapital.com](http://www.westmountaincapital.com)

#### Market Data (as of May 20, 2010)

|               |                   |
|---------------|-------------------|
| Current Price | C\$0.27           |
| Fair Value    | C\$0.70           |
| Rating*       | BUY               |
| Risk*         | 4 (Speculative)   |
| 52 Week Range | C\$0.04 – C\$0.41 |
| Shares O/S    | 37.39 mm          |
| Market Cap    | C\$10.10 mm       |
| Current Yield | N/A               |
| P/E (2010E)   | 5.61              |
| P/B           | 1.44              |
| YoY Return    | 440 %             |
| YoY TSXV      | 31%               |

\*see back of report for rating and risk definitions



#### Q1-2010 Highlights:

- West Mountain Capital Corp. (“West Mountain”, the “Company”), through its wholly owned subsidiary, Phase Separation Solutions Inc. (“PS2”), recorded \$2.13 million in revenues in Q1-2010 compared to nil in Q1-2009. The increase in revenues was primarily due to a 6,300 tonne PCB soil remediation contract, which the company expects to complete by June 2010.
- Net income was \$1.34 million (EPS: \$0.036) in Q1-2010, compared to -\$0.26 million (EPS: -\$0.007) in Q1-2009.
- Revenues were line with expectations, but net income was above expectations because of higher gross margins.
- West Mountain received the final payment (\$0.5 million) from Bennett Environmental Inc. (TSX: BEV), and all obligations from the standby agreement have been fulfilled.
- Additional staff added to target the Chinese PCB market.
- We have maintained our BUY rating and fair value at \$0.70 per share.

#### Key Financial Data (FYE - December 31)

| (C \$)                    | 2008        | 2009      | 2010E     | 2011E      |
|---------------------------|-------------|-----------|-----------|------------|
| Cash and Cash Equivalents | 783,993     | 3,255,003 | 4,882,495 | 7,272,483  |
| Working Capital           | 229,509     | 2,505,997 | 4,976,676 | 7,441,643  |
| Total Assets              | 4,467,696   | 6,920,842 | 8,347,044 | 10,791,785 |
| Revenues                  | -           | 5,884,361 | 5,037,500 | 7,233,333  |
| Net Income                | (1,430,758) | 2,508,147 | 1,799,316 | 2,018,969  |
| EPS                       | (0.04)      | 0.07      | 0.05      | 0.05       |

West Mountain Capital, through its wholly owned subsidiary, Phase Separation Solutions (PS2), is in the business of thermal treatment of soil, sludge and other waste streams. The company has exclusive rights to use the patented Thermal Phase Separation (TPS) technology for hazardous waste decontamination treatment services in Canada, China and the U.S.

**Q1 Results in Line with Expectations**

As mentioned in our initiating report in March 2010, the company has an inventory backlog that should provide continuous operations in the first half of 2010. In Q1-2010, the company recorded \$2.13 million in soil treatment revenues, compared to nil in the first quarter of 2009. We continue to believe the company will post solid revenues and EPS figures in the next two years as Environment Canada has required the removal of all stored PCB soil by the end of 2011.

We have adjusted the average soil treatment price per tonne from \$800 to \$825 for FY2010, based on the pricing of existing contracts. As a result, we have slightly raised our FY2010 revenue forecast from \$4.90 million to \$5.04 million. Our 2010 estimate also includes a \$0.5 million payment from Bennett (under the standby agreement). We have maintained our FY2011 forecast at \$7.23 million.

In Q1-2010, gross profit and net income were \$1.67 million and \$1.34 million (EPS: \$0.036), respectively. Gross margins in the first quarter, excluding the one time payment from Bennett, were 77%, and were significantly higher than our expectations. Management attributes this improvement to the cost efficiencies created by continuous operation at the treatment facility. As a result, we have adjusted our gross margin target to 66% for FY2010, up from 64% in our previous report. Our earnings forecast for 2010, however, remain unchanged as we raised our G&A and tax estimates for the year. **Our net income forecasts for FY2010, and FY2011, are \$1.80 million (EPS: \$0.05), and \$2.02 million (EPS: \$0.05), respectively, and unchanged from our previous report.**

At the end of Q1-2010, the company had cash and cash equivalents of \$3.88 million, restricted cash of \$0.29 million, and working capital was \$4.29 million.

| Liquidity Analysis      | 2007      | 2008      | 2009        | Q1-2010     |
|-------------------------|-----------|-----------|-------------|-------------|
| Working Capital         | \$887,735 | \$229,509 | \$2,505,997 | \$4,287,335 |
| Current Ratio           | 2.83      | 1.22      | 2.74        | 6.63        |
| Debt / Capital          | 0.1%      | 26.5%     | 11.3%       | 2.5%        |
| Interest Coverage Ratio | (2.2)     | (26.8)    | 23.2        | 71.4        |

**Stock Options and Warrants** – At the end of December 2009, the company had 2.54 million stock options with a weighted average exercise price of \$0.23 per share, and a weighted average time to maturity of 2.7 years. The company has no outstanding warrants.

**Convertible Debt Option Exercised**

As expected, the convertible bondholders converted their 10% convertible debt in the aggregate amount of \$0.4 million at \$0.15 per share. A total of 2.67 million shares were issued by the company to the investor.

**Additional Members Added to Tap the PCB Market in China**

The company added two members to its Chinese operations. Brief biographies of the new members follow:

*Ms. Ge has a Bachelor of Engineering (Thermal Power) and a Bachelor of Science (Mathematics) with 14 years of industry experience. In her last employment position she worked with the Ministry of Environmental Protection in China where she spent four years*

*exclusively focused on PCB waste management and disposal. Ms. Ge is stationed in Beijing and has accepted the position of China Business Development Manager for PS2.*

*Ms. Hu is a recent graduate and possesses a Master of Applied Science (Environmental Systems Engineering) and a Bachelor of Mechanical Engineering (Thermal Energy). She is currently employed at the Wolseley Facility to gain an understanding of the TPS Technology and will eventually be a key team member in our China-based operations.*

We are taking a wait and see approach regarding the company's strategy of entering into the Chinese PCB remediation market. We believe the Chinese soil remediation market is an important growth prospect for the company. However, at the same time, the company may face foreign and domestic competitors that are also trying to capture the market. Our valuation at this point does not consider the Chinese market potential, but we will continue to monitor the progress of the company in this market.

***PS2 as  
Potential  
Acquisition  
Target***

Bennett Environmental Inc., a major player in the Canadian PCB remediation market, raised approximately \$25 million in an equity offering in May 2010. As of March 31, 2010, Bennett had cash equivalents of \$39.3 million on its balance sheet. **We believe West Mountain, through its subsidiary, Phase Separation Solutions (PS2), is an attractive acquisition target for Bennett because:**

- PS2 is only one of the three players in Canadian PCB market that is dominated by Bennett. The Alberta provincial government owns the third player, Swan Hill Treatment Centre, which is contracted to a third party for management.
- By acquiring West Mountain, Bennett would have immediate access to the Western Canada PCB market, with minimal regulatory constraints, as well as opportunities to tap into other waste-stream remediation markets using PS2's technology.
- Bennett and PS2 have already had a prior working relationship in the Pottersburg PCB project.

***Valuation***

Our Discounted Cash Flow (DCF) valuation model on the company was based on potential revenues from two sectors: a) PCB soil remediation in Canada, and b) the Industrial sludge treatment market in Canada (primarily in Ontario because of the new regulations mentioned in our previous report). For conservatism, we have not accounted for the upside potential from the PCB market in China, and the other soil treatment markets (outside PCB) in the U.S. and Canada. Please see our previous report for our DCF model assumptions and sensitivity analysis.

| <b>DCF Valuation</b>   |               |              |              |              |                 |
|------------------------|---------------|--------------|--------------|--------------|-----------------|
| <b>(C\$)</b>           | <b>2010E</b>  | <b>2011E</b> | <b>2012E</b> | <b>2013E</b> | <b>2014E</b>    |
| FFO                    | 2,347,514     | 2,564,967    | 3,746,662    | 4,695,638    | 2,388,042       |
| Change in WC           | (400,294)     | 22,652       | (85,830)     | (69,128)     | 149,512         |
| CFO                    | 1,947,220     | 2,587,619    | 3,660,831    | 4,626,509    | 2,537,554       |
| CAPEX                  | (100,000)     | (100,000)    | (100,000)    | (100,000)    | (100,000)       |
| Free Cash Flow         | 1,847,220     | 2,487,619    | 3,560,831    | 4,526,509    | 2,437,554       |
| PV                     | 1,649,304     | 1,983,115    | 2,534,529    | 2,876,679    | 1,383,133       |
|                        | <b>2015E</b>  | <b>2016E</b> | <b>2017E</b> | <b>2018E</b> | <b>Terminal</b> |
| FFO                    | 2,628,493     | 2,977,900    | 3,477,727    | 3,525,165    | 1,570,072       |
| Change in WC           | (19,465)      | (26,856)     | (37,054)     | (6,732)      | 150,007         |
| CFO                    | 2,609,028     | 2,951,044    | 3,440,673    | 3,518,433    | 1,720,079       |
| CAPEX                  | (100,000)     | (100,000)    | (100,000)    | (100,000)    | (100,000)       |
| Free Cash Flow         | 2,509,028     | 2,851,044    | 3,340,673    | 3,418,433    | 1,620,079       |
| PV                     | 1,271,152     | 1,289,667    | 1,349,242    | 1,232,721    | 6,491,297       |
| Discount Rate          | 12%           |              |              |              |                 |
| Terminal Growth        | 3%            |              |              |              |                 |
| Firm PV                | \$22,060,839  |              |              |              |                 |
| Cash                   | \$3,255,003   |              |              |              |                 |
| Debt                   | \$310,733     |              |              |              |                 |
| PV Equity              | \$25,005,109  |              |              |              |                 |
| Shares O/S (dil)       | 37,953,093    |              |              |              |                 |
| <b>DCF Value/Share</b> | <b>\$0.66</b> |              |              |              |                 |

As we did not make any significant changes, our DCF valuation was maintained at \$0.66 per share.

The following table shows that both WMT and Bennett are trading slightly above the industry average Enterprise Value (EV) to Revenues multiple, but well below the average EV/EBITDA and EV/Net Profit multiples.

|                        | <b>West Mountain Capital Corp.</b> | <b>Bennett Environmental Inc.</b> | <b>Environmental and Facilities Services Industry</b> | <b>Average</b> | <b>WMT's FV</b> |
|------------------------|------------------------------------|-----------------------------------|---|----------------|-----------------|
| <b>TEV/Revenues</b>    | 1.42                               | 1.42                              | 1.40  | 1.41           | \$0.27          |
| <b>TEV/EBITDA</b>      | 2.99                               | 2.54                              | 9.25  | 5.89           | \$0.45          |
| <b>TEV/Net Profits</b> | 3.97                               | 2.45                              | 57.3  | 29.87          | \$1.49          |
| <b>Average</b>         |                                    |                                   |   |                | <b>\$0.74</b>   |

\*WMT's metrics were calculated based on our 2010 estimates.

\*Bennett metrics were calculated based on last twelve months data.

\*Industry figures are the last three month averages.

(Source: Capital IQ, FRC)

We used the average of Bennett and the Environmental and Facilities Services Industry's valuation metrics to estimate the fair value of WMT. We included Bennett in this analysis because its business model and target markets are very similar to that of WMT. Based on the

average valuation metrics, we arrived at an average fair value of \$0.74 per share on WMT (up from \$0.68 per share at the time of our previous report).

**Rating**

**Based on our review of the company, and our valuation models, we continue to rate WMT as a BUY with a fair value estimate of \$0.70 per share.**

**Risks**

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

- Although we expect the Canadian PCB soil treatment market to provide near-term momentum, it is a declining market as PCB production has been banned since the 1970's.
- The number and size of contracts obtained each year vary and depend on the amount of funding budgeted by customers for remedial projects.
- Revenues for the PCB soil remediation industry in Canada have been highly volatile in the past.
- The company has yet to break into the Chinese PCB market and the industrial sludge market in Canada.
- The industry relies on favourable environmental protection/cleanup changes from the government regulatory bodies for future growth.

**We maintain our risk rating for the company at 4 (Speculative).**

## STATEMENTS OF OPERATIONS

| (in C\$)                                     | 2007               | 2008               | 2009             | 2010E            | 2011E            |
|--|--------------------|--------------------|------------------|------------------|------------------|
| <b>Sales</b>                                 | <b>255,633</b>     | <b>-</b>           | <b>5,884,361</b> | <b>5,037,500</b> | <b>7,233,333</b> |
| COGS   | 257,473            | 103,323            | 2,009,746        | 1,724,250        | 2,893,333        |
| <b>Gross Profit</b>                          | <b>(1,840)</b>     | <b>(103,323)</b>   | <b>3,874,615</b> | <b>3,313,250</b> | <b>4,340,000</b> |
| <b>Expenses</b>                              |                    |                    |                  |                  |                  |
| G&A  | 415,567            | 608,493            | 886,620          | 822,312          | 904,543          |
| Stock-based compensation                     | 19,488             | 91,555             | 71,244           | 100,750          | 144,667          |
| <b>EBITDA</b>                                | <b>(436,895)</b>   | <b>(803,371)</b>   | <b>2,916,751</b> | <b>2,390,188</b> | <b>3,290,790</b> |
| Amortization                                 | 335,609            | 393,091            | 420,941          | 407,448          | 361,331          |
| <b>EBIT</b>                                  | <b>(772,504)</b>   | <b>(1,196,462)</b> | <b>2,495,810</b> | <b>1,982,740</b> | <b>2,929,459</b> |
| Interest & Bank Charges                      | 31,783             | 17,682             | 9,745            | 8,980            | 3,417            |
| Interest income                              | 5,661              | 21,386             | -                |                  |                  |
| Interest on long-term debt                   | (368,161)          | (44,484)           | (106,948)        | (18,980)         |                  |
| <b>EBT</b>                                   | <b>(1,166,787)</b> | <b>(1,237,242)</b> | <b>2,379,117</b> | <b>1,954,779</b> | <b>2,926,042</b> |
| Discontinued operations, net of income taxes | (345,983)          | (193,516)          | 129,030          |                  |                  |
| Taxes  |                    |                    |                  | 155,463          | 907,073          |
| <b>Net Earnings for the period</b>           | <b>(1,512,770)</b> | <b>(1,430,758)</b> | <b>2,508,147</b> | <b>1,799,316</b> | <b>2,018,969</b> |
| EPS  | (0.06)             | (0.04)             | 0.07             | 0.05             | 0.05             |

**BALANCE SHEETS**

| <b>(in C\$)</b>                                     | <b>2007</b>      | <b>2008</b>      | <b>2009</b>      | <b>2010E</b>     | <b>2011E</b>      |
|---|------------------|------------------|------------------|------------------|-------------------|
| <b>Assets</b>                                       |                  |                  |                  |                  |                   |
| Cash and cash equivalents                           | 1,253,446        | 783,993          | 3,255,003        | 4,882,495        | 7,272,483         |
| Accounts receivable                                 | 117,725          | 155,344          | 681,075          | 716,044          | 1,028,166         |
| Income tax receivable                               | -                | 177,861          | -                | -                | -                 |
| Assets related to discontinued operations           | -                | 141,988          | -                | -                | -                 |
| Prepaid Expenses and deposits                       | 2,750            | 12,094           | 9,144            | 9,091            | 13,053            |
| <b>Current Assets</b>                               | <b>1,373,921</b> | <b>1,271,280</b> | <b>3,945,222</b> | <b>5,607,630</b> | <b>8,313,702</b>  |
| Restricted Cash                                     | 145,301          | 167,383          | 217,394          | 288,636          | 288,636           |
| Capital Assets                                      | 2,970,732        | 2,982,937        | 2,716,322        | 2,408,874        | 2,147,543         |
| Other assets  | 51,216           | 46,096           | 41,904           | 41,904           | 41,904            |
| <b>Total Assets</b>                                 | <b>4,541,170</b> | <b>4,467,696</b> | <b>6,920,842</b> | <b>8,347,044</b> | <b>10,791,785</b> |
| <b>Liabilities &amp; Shareholders' Equity</b>       |                  |                  |                  |                  |                   |
| Bank loan   | -                | 107,000          | -                | -                | -                 |
| Accounts Payables & Accrued Liabilities             | 296,207          | 299,658          | 864,972          | 499,594          | 838,331           |
| Deferred Revenue                                    | 184,409          | 393,798          | -                | -                | -                 |
| Convertible debentures                              | -                | -                | 474,203          | -                | -                 |
| Liabilities related to discontinued operations      | -                | 184,903          | 38,732           | 33,729           | 33,729            |
| Current Portion of Obligations Under Capital Lease  | 5,570            | 56,412           | 61,318           | 97,631           | -                 |
| <b>Current Liabilities</b>                          | <b>486,186</b>   | <b>1,041,771</b> | <b>1,439,225</b> | <b>630,954</b>   | <b>872,060</b>    |
| Obligations under capital lease                     | -                | 158,652          | 97,631           | -                | -                 |
| Convertible debentures                              | -                | 464,274          | -                | -                | -                 |
| Shareholders' loans                                 | -                | -                | -                | -                | -                 |
| Long-term debt                                      | -                | -                | -                | -                | -                 |
| Asset retirement obligation                         | 93,431           | 102,775          | 113,052          | 153,052          | 193,052           |
| <b>Shareholder's Equity</b>                         |                  |                  |                  |                  |                   |
| Share Capital                                       | 6,915,817        | 6,935,817        | 6,935,817        | 7,377,048        | 7,377,048         |
| Contributed surplus                                 | 90,141           | 181,696          | 252,940          | 353,690          | 498,357           |
| Equity component of convertible debentures          | -                | 57,874           | 49,193           | -                | -                 |
| Deficit   | (3,044,405)      | (4,475,163)      | (1,967,016)      | (167,700)        | 1,851,269         |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>4,541,170</b> | <b>4,467,696</b> | <b>6,920,842</b> | <b>8,347,044</b> | <b>10,791,785</b> |

**STATEMENTS OF CASH FLOWS**

| <b>(in C\$)</b>  | <b>2008</b>        | <b>2009</b>      | <b>2010E</b>     | <b>2011E</b>     |
|--|--------------------|------------------|------------------|------------------|
| <b>Operating Activities</b>  |                    |                  |                  |                  |
| Net earnings for the period  | (1,430,758)        | 2,508,147        | 1,799,316        | 2,018,969        |
| Discontinued operations, net of income taxes                             | 193,516            | (129,030)        |                  |                  |
| <b>Items not involving cash</b>  |                    |                  |                  |                  |
| Accretion expense - asset retirement obligation                          | 18,992             | 48,868           | 40,000           | 40,000           |
| Amortization (capital assets and license)                                | 390,017            | 410,664          | 407,448          | 361,331          |
| Loss (gain) on settlements of debentures                                 | -                  | (5,621)          |                  |                  |
| Stock-based compensation   | 91,555             | 71,244           | 100,750          | 144,667          |
|  | <b>(736,678)</b>   | <b>2,904,272</b> | <b>2,347,514</b> | <b>2,564,967</b> |
| Changes in non-cash operating working capital                            | 168,894            | (173,404)        | (400,294)        | 22,652           |
| Cash provided by (used in) operating activities- discontinued operations | (630,629)          | 24,847           | (5,003)          |                  |
| <b>Cash from (used in) operations</b>                                    | <b>(1,198,413)</b> | <b>2,755,715</b> | <b>1,942,217</b> | <b>2,587,619</b> |
| <b>Financing activities</b>  |                    |                  |                  |                  |
| Proceeds from bank loan  | 107,000            | -                |                  |                  |
| Repayment of bank loan   | -                  | (107,000)        |                  |                  |
| Repayment of capital lease obligations                                   | (48,483)           | (56,115)         |                  |                  |
| Payment of promissory note payable                                       |                    |                  |                  |                  |
| Proceeds from capital lease obligations                                  |                    |                  |                  |                  |
| Proceeds from long-term debt   |                    |                  |                  |                  |
| Proceeds (repayments) from debentures - net                              |                    |                  | (82,165)         |                  |
| Proceeds (repayments) of debentures - net                                | 500,000            | (31,722)         | (474,203)        | -                |
| Proceeds from issuance of common share and exercise of stock options     | 20,000             | -                |                  |                  |
| <b>Cash provided by (used in) financing activities</b>                   | <b>578,517</b>     | <b>(194,837)</b> | <b>(556,368)</b> | <b>-</b>         |
| <b>Investing activities</b>  |                    |                  |                  |                  |
| Increase in restricted cash  | (22,082)           | (50,011)         | (71,242)         |                  |
| Increase in share capital  |                    |                  | 474,203          |                  |
| Purchase of capital assets   | (322,076)          | (139,857)        | (61,318)         | (97,631)         |
| Capital Expenditures   |                    |                  | (100,000)        | (100,000)        |
| Purchase of license  |                    |                  |                  |                  |
| Cash used in investing activities- continuing operations                 | (344,158)          | (189,868)        | 241,643          | (197,631)        |
| Cash provided by investing activities- discontinued operations           | 494,601            | 100,000          |                  |                  |
| <b>Cash provided by (used in) investing activities</b>                   | <b>150,443</b>     | <b>(89,868)</b>  | <b>241,643</b>   | <b>(197,631)</b> |
| Increase (decrease) in cash  | (469,453)          | 2,471,010        | 1,627,492        | 2,389,988        |
| Cash beginning of period   | 1,253,446          | 783,993          | 3,255,003        | 4,882,495        |
| <b>Cash end of period</b>  | <b>783,993</b>     | <b>3,255,003</b> | <b>4,882,495</b> | <b>7,272,483</b> |

**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.

#### **Disclaimers and Disclosure**

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