

January 20, 2015

Virtutone Networks Inc. (TSXV: VFX; FRANKFURT: 0VN) – Suspending Coverage

Sector/Industry: Telecommunication Services

www.virtutone.com

Virtutone Networks Inc. ("Virtutone" / "Company") put out a press release last Friday evening that one of its largest clients has been unable to make payments totaling US\$13.8 million due to Virtutone. According to the press release:

“Considering the importance of the amount involved, Virtutone had no other alternatives than to reduce costs to the minimal as well as to lay off all staff, excluding Jason Allen, CEO, as well as William N. Woods, CFO, and is now suspending operations to concentrate all efforts on obtaining payment. The outcome of these efforts being uncertain, there is no guarantee that Virtutone will be able to resume operations. Virtutone's management is currently undergoing a strategic review of available its options and recourses in light of the current circumstances.”

Approximately 6.48 million shares were traded on Monday as VFX's share price dropped 90% from \$0.05 per share to \$0.005 per share. The shares are currently trading at \$0.01 per share.

The company had \$29 million in accounts receivable as of October 31, 2014, implying the customer accounted for approximately 47% of the receivables. **The company did not disclose, in their recent financial statements, that they had a high concentration of receivables with a single customer. Moreover, the company did not even provide any allowance for doubtful accounts for the quarter ended October 31, 2014.** Another factor that makes us surprised is that management had indicated to us that, as of November 2014, approximately 94% of receivables were insured, and that they may receive up to 90% of the insured amount in the event of a default.

We were unable to reach management to discuss the latest developments. As a result, we are suspending coverage on the company. Our rating and fair value opinion are no longer valid.

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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