



Analysts' Ideas of the Week

Lithium Junior Produces Battery Grade Product

January 13, 2020

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Mining / Exploration

Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
Lake Resources N.L.	ASX: LKE	A\$0.05	A\$0.73	Jan-13-2020
PR Content Produced battery grade lithium carbonate with 99.9% purity and very low impurities from its Kachi lithium brine project (Argentina) using Lilac Solutions' direct extraction technology. The company is now preparing to produce large quantities of battery grade lithium carbonate samples to potential off-takers for evaluation.		FRC Opinion Positive – This is a very positive development and puts LKE in a strong position relative to other lithium juniors. The Kachi project has a 1 Mt indicated (289 mg/L), and 3.4 Mt inferred (209 mg/L) Lithium Carbonate Equivalent (LCE) resource. The project is located approximately 80 km south of Livent Corporation's (NYSE: LTHM) Hombre Muerto lithium brine operation, and Galaxy Resources Limited's (ASX: GXY) Sal de Vida lithium brine project. It is also 40 km southeast of Albemarle Corp's lithium brine development project in Salar de Antofalla. Management is planning to complete a pre-feasibility study this year.		
Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
Kootenay Silver Inc	TSXV: KTN	\$0.285	\$0.62	Jan-8-2020
PR Content Results from the final seven holes of a 2019 drill program at its high grade Columba silver project in Chihuahua state, Mexico were very encouraging. Best results included: <ul style="list-style-type: none"> ➤ 650 gpt silver over 7.45 m, within 159 gpt silver over 39.9 m. ➤ 808 gpt silver over 0.88 m, within 194 gpt silver over 4.9 m. ➤ 628 gpt silver over 1.5 m, within 301 gpt silver over 4.63 m. 		FRC Opinion Positive - In total, the 2019 program at Columba included 41 holes / 6,853 m. Results have been very positive, especially considering the project's high-grade potential. A follow up drill program is being planned. We expect a maiden resource estimate in the second half of 2020. Note that the company's flagship project, La Cigarra, also in Chihuahua state, has open-pit measured and indicated resources of 51.5 Moz at 86.3 g/t silver, and an inferred resource of 11.5 Moz at 80.0 g/t silver.		

Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
Monarch Gold Corporation	TSX: MQR	\$0.21	\$0.82	Jan-8-2020
PR Content Results from the first four holes of a drill program on its McKenzie Break gold project (25 km north of Val-d'Or) returned promising values, including 26.78 g/t Au over 2.1 m (including 56.51 g/t Au over 0.5 m and 47.78 g/t Au over 0.5 m), 5.51 g/t Au over 4.0 m (including 14.29 g/t Au over 1.5 m), and 5.17 g/t Au over 3.0 m (including 12.79 g/t Au over 1.0 m).		FRC Opinion Positive –McKenzie already has an indicated resource of 102 Koz (2.6 gpt) and an inferred resource of 64 Koz (3.5 gpt). The first set of holes indicate extension of mineralization to the east/west/south, as well as depth. The remaining results will show the potential for extension towards the north. The company's current portfolio holds reserves of 1.93 Moz. Reserves are included in measured and indicated resources totaling 3.27 Moz, and inferred resources of 1.10 Moz. We estimate that MQR's shares are currently trading at just \$15 per oz versus the comparables average of \$64 per oz. Management is actively seeking a potential JV partner to advance its flagship asset named the Wasamac gold project. A feasibility study, completed in late 2018, showed a 11-year mine life (142 Koz per year) for an after-tax NPV @ 5% of \$311 million, and an AT-IRR of 18.5%, at US\$1,300 per oz gold. The project has an after-tax NPV at 5% of \$103 million even at a gold price of US\$1,000 per oz.		

Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
GR Silver Mining	TSXV: GRSL	\$0.23	\$0.98	Jan-7-2020
PR Content <p>Changed named from Goldplay Exploration Ltd. to GR Silver Mining Ltd. The company also entered into a non-binding LOI with First Majestic Silver Corp. (NYSE: AG) to acquire 100% of the past producing Plomosas silver project, located within 5 km of GRSL's San Marcial project. Payment terms include a \$100k cash payment, 19.9% of the company's shares, and a 2% NSR (1% can be acquired for US\$1 million). The project includes five shallow past producing underground mines and 11 exploration targets. This is the second LOI signed by the company in the past few weeks. The first one was an LOI with Mako Mining Corp. (TSXV: MKO) to acquire a 100% interest in the La Trinidad gold mine facilities, and nine concessions located adjacent to GRSL's existing portfolio.</p>		FRC Opinion <p>Positive – Property consolidation shows management's strong conviction in the area. In February 2019, the company announced a maiden resource estimate, which showed an indicated resource of 36 Moz at an average grade of 147 gpt AgEq, and an inferred resource of 11 Moz at 108 gpt AgEq. The estimate includes a shallow, high-grade open pittable indicated resource of 23 Moz AgEq at 239 gpt AgEq. The average EV to resource ratio of silver explorers is \$0.48 per oz. We estimate that GRSL's shares are currently trading at US\$0.27 per oz.</p>		

Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
Kerr Mines Inc.	TSX: KER	\$0.15	\$0.40	Jan-8-2020
PR Content Announced an update on permitting at its 100% owned Copperstone mine gold project in Arizona. In December 2019, the U.S. Bureau of Land Management (“BLM”) closed the Environmental Assessment Notice period. As there were no comments, it is expected that the BLM will approve Kerr’s modified operating permit (Mine Plan of Operations / MPO), which will increase allowed production from 450 to 600 tpd.		FRC Opinion Positive – This is a positive development as Kerr has all the remaining permits required for mine operations. Kerr is targeting to commence production by Q4-2020. We believe a 5,000 m Phase I drill program in 2019, on the main Copperstone zone, not only demonstrated high grades (including 16.8 m at 40 g/t gold), but also potential for further increases in tonnage. The most recent resource estimate on the project, calculated in 2018, showed a measured and indicated resource of 0.28 Moz at 7.63 gpt gold, and an inferred resource of 0.15 Moz at 6.81 gpt gold. The company is planning to commence a 10,000 m / Phase II drill program. Management is also evaluating potential to lower the initial CAPEX (2018 PFS showed US\$23 million) by using floatation.		

Cannabis

Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
Inner Spirit Holdings Ltd.	CSE: ISH	\$0.12	\$0.40	January 10, 2020
PR Content Announced system-wide retail sales (“SWS”) for Spiritleaf stores to exceed \$29 million in 2019. In addition, the company reported that they are currently operating 43 Spiritleaf stores.		FRC Opinion Positive – Although the number of operating stores to start 2020 (of 43) is slightly below our forecast of 44, we were pleasantly surprised to see the company report SWS for Spiritleaf stores that exceeded our forecasts for 2019 (of \$27.18 million). Our outlook on Inner Spirit remains positive. With the Ontario and Saskatchewan governments’ decision to move towards an open licensing system, and the roll-out of Cannabis 2.0 products, we believe Inner Spirit is expected to witness a significant boost to top-line revenue in 2020.		

Company Name:	Ticker Symbol	Current Share Price:	FRC Fair Value Estimate:	Date of PR:
The Yield Growth Corp.	CSE: BOSS	\$0.26	\$0.45	January 9, 2020 January 7, 2020
PR Content		FRC Opinion		
Announced a binding letter of intent (“LOI”) with Acres Agricultural Canada Corp. (“Acres”) to jointly form a company for the cultivation of psilocybin mushrooms and research and development (“R&D”) into compounds and therapeutic use of psilocybin mushrooms. A laboratory is to be built in Saint Vincent and the Grenadines, and the company is to contribute \$0.20 million for initial operating capital as a secured loan (annual rate of 8%). The initial capital structure is to be 50% owned by the company and 50% owned by Acres. Additional capital will be funded equally by both parties. The company also announced that it had appointed a sales expert (Amber Allen) for the company’s Flourish Mushroom Labs subsidiary.		Neutral – Although we are pleased to see the company actively work to grow Flourish Mushroom Labs, we have advised against speculating on the revenue potential from this subsidiary. We stress that psilocybin mushrooms still remain illegal in major jurisdictions such as the United States and Canada. Readers should keep in mind that growing the company’s Flourish Mushroom Labs subsidiary may dilute management focus on other subsidiaries such as Urban Juve and Wright & Well. As we have alluded to in previous notes, we would like to see more announcements regarding product sales of Urban Juve.		

Weekly Cannabis Commentary

Below is the performance of the Horizons Marijuana Life Sciences Index ETF (TSX: HMMJ / “HMMJ”) as a proxy for sentiment of the cannabis market.

Horizons Marijuana Life Sciences Index ETF



Source: Google

The HMMJ is currently trading at \$8.76, a week-over-week increase of 5.68%. Over a one-year period, the HMMJ has lost 53% in value. Currently, the HMMJ is trading 8.15% above its 52-week low of \$8.10. Today, cannabis stocks witnessed a bounce in their share price due to what we believe to be an anticipation for Aphria's earnings report (due January 14, 2020 pre-market), and the further support for cannabis legalization in numerous U.S. states. First, we discuss expectations on Aphria's upcoming earnings report and then touch on cannabis legalization in the United States.

Aphria Inc.

Aphria is expected to release its fiscal Q2-2019 on January 14, 2020. Over the past two earnings reports by Aphria, the company delivered relatively strong financial results. In fact, in 2019, Aphria was the **first Canadian cannabis company to report a net profit**. In a cannabis market that currently has overwhelmingly poor market sentiment, companies that are able to show profitability stand a cut above the rest.

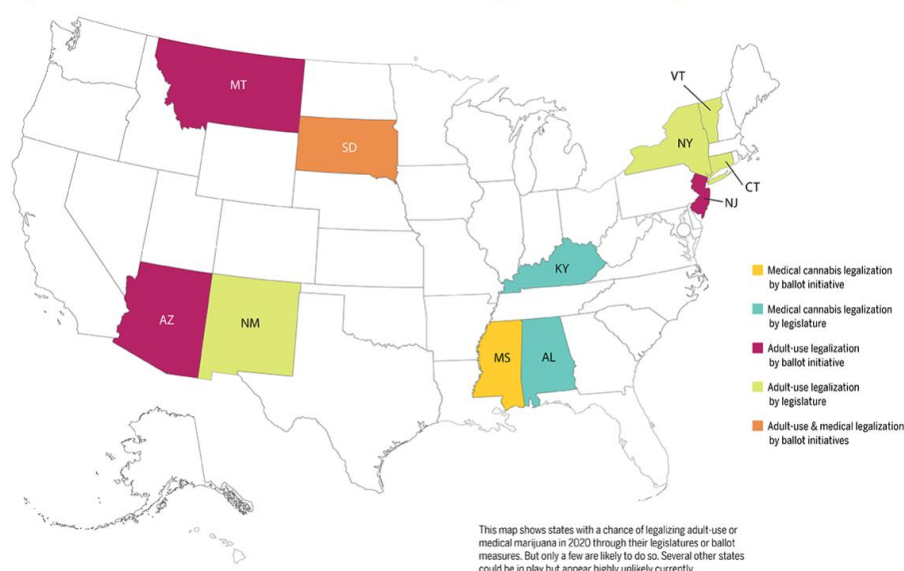
Come this fiscal Q2-2019 earnings result by Aphria, Zacks consensus estimates call for a quarterly loss of \$0.02 per share. In addition, Aphria is expected to post revenue of \$130.3 million for fiscal Q2-2019 – a 3.3% quarter-over-quarter (“QoQ”) increase. Given that dried cannabis flower sales in Canada over the past couple of months have not shown significant growth, we do not expect to see strong upside in sales from Aphria. **We stress the importance of this earnings report by Aphria, as it would provide further insight into pricing pressure in the Canadian cannabis market.** In addition, this earnings result is expected to provide preliminary insight into the attractiveness of dried cannabis flower in Europe. Given that Aphria

operates in Germany through CC Pharma GmbH, it would be of great interest to see how demand is fairing in Europe. Our research has pointed to Europe as being the largest market for cannabis over the long-term. As we have mentioned, Aphria is expected to report their financial results before markets open on January 14, 2020 – we urge readers to tune in. We will provide a discussion on their financial results in our next Analyst Ideas of the Week (“AIW”).

Legalization of Cannabis in the United States

According to Marijuana Business Daily (“MBD”), up to a dozen states could legalize adult-use or medical cannabis in 2020. As we have previously mentioned, a domino effect in the United States is expected to result in a myriad of states legalizing cannabis in the medium-term. The following are key states to watch in 2020.

Important States to Watch as Cannabis Legalization Prospects in 2020



Source: Marijuana Business Daily

These states include:

States to Watch for Adult-Use Cannabis Market in 2020	
• Arizona (“AZ”)	• Montana (“MT”)
• New Mexico (“NM”)	• South Dakota (“SD”)
• Mississippi (“MS”)	• Alabama (“AL”)
• Kentucky (“KY”)	• New Jersey (“NJ”)
• New York (“NY”)	• Vermont (“VT”)
• Connecticut (“CT”)	

The states above are expected to comprise 17% of the U.S. population (of 330 million), representing a notable target market. As more states establish an adult-use cannabis market, we expect this to help form a baseline of growth for cannabis companies.

To illustrate how the legalization of adult-use cannabis in U.S. states may improve cannabis market sentiment, we turn to the state of Illinois. At the start of the year, the state of Illinois legalized adult-use cannabis. According to the Chicago Sun Times, **the first five days of recreational cannabis legalization resulted in over US\$10.8 million (\$14.10 million) worth of cannabis products sales.** This can be compared to Canada, which sold \$43 million in the first two weeks after legalization (Source: Global News) of dried cannabis flower. Readers should note that the population of Illinois (of 12.70 million) is a third of Canada (of 37.59 million). Although the cannabis usage rate is expected to differ in different states, we reiterate our view that demand for cannabis in the U.S. is expected to be strong.

In significant U.S. cannabis legalization news, **Andrew Cuomo (governor of New York) recently highlighted the legalization of adult-use cannabis as one of his 2020 priorities (Source: CNN).** Given that the state of New York has a population of roughly 19.49 million, we believe the legalization of cannabis in New York for adult-use would open a huge addressable target market for cannabis companies. With that said, there is strong opposition regarding the legalization of cannabis in New York. The main concern regarding the legalization of cannabis in New York, we believe, are related to weed-fueled drugged driving and youth marijuana use (Source: Evening Tribune). **Currently, of the top five states by population in the U.S., only one state has legalized cannabis for recreational purposes (California).**

Rank	State	Population	Recreational Cannabis?
1	California	39,747,267	Y
2	Texas	29,087,070	N
3	Florida	21,646,155	N
4	New York	19,491,339	N
5	Pennsylvania	12,813,969	N

Source: worldpopulationreview.com, FRC

Performance of Select Canadian LPs

The following shows the performance of select Canadian LPs on a year-to-date (“YTD”) 1-month, 6-months, and 1-year basis.

Name	YTD	1-Month	6-Months	1-Year
Aphria Inc.	9.06%	1.43%	-13.40%	-23.90%
Aurora Cannabis Inc.	-15.59%	-32.93%	-75.68%	-75.33%
Canopy Growth Corp.	15.27%	12.43%	-34.26%	-46.64%
Cronos Group Inc.	2.62%	4.93%	-49.51%	-46.12%
Tilray Inc.	5.91%	-4.61%	-60.72%	-82.66%
Hexo Corp.	-6.71%	29.49%	-69.70%	-67.38%
CannTrust Holdings Inc.	10.48%	22.32%	-65.58%	-83.55%
Organigram Holdings Inc.	-5.57%	-14.03%	-63.64%	-54.21%
The Supreme Cannabis Co., Inc.	-24.22%	-26.52%	-64.34%	-72.60%
AVERAGE	-0.97%	-0.83%	-55.20%	-61.38%

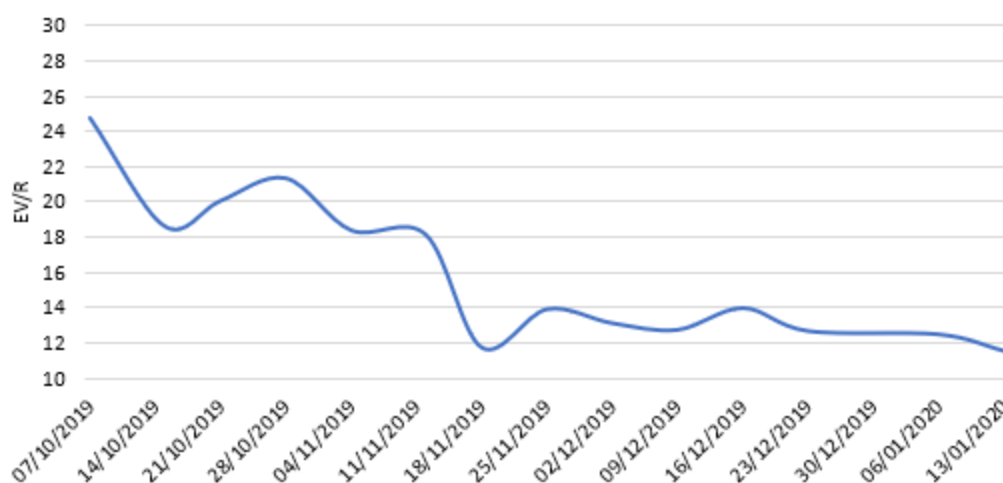
Source: Google

The average YTD, 1-month, 6-months and 1-year returns were **-0.97%**, **-0.83%**, **-55.20%** and **-61.38%**, respectively. The worst performers on a YTD basis were Aurora Cannabis Inc. (“Aurora”) and The Supreme Cannabis Co., Inc. (“Supreme Cannabis Company”).

- **Aurora:** There has been growing concerns whether Aurora will be able to satisfy its debt covenants on a \$360 million loan that is due August 2021. Recently, Aurora faced a downgrade from Bank of America analyst Christopher Carey due to balance sheet risk.
- **Supreme Cannabis Company:** The Chief Executive Officer (“CEO”) of Supreme Cannabis Company, Navdeep Dhaliwal, parted ways with the company on January 6, 2020.

Valuation of Select Canadian LPs

The following shows the average Enterprise Value to Revenue (“EV/R”) that cannabis companies are currently trading at. The companies used in the chart below are outlined further below.



Source: FRC, S&P Capital IQ

January 6, 2020				January 13, 2020	
Company	Ticker	TEV/Revenue	TEV/EBITDA	TEV/Revenue	TEV/EBITDA
Aphia Inc.	TSX: APHA	4.7	NM	4.8	NM
Aurora Cannabis Inc.	TSX: ACB	11.4	NM	9.8	NM
Canopy Growth Corp.	TSX: WEED	21.0	NM	22.0	NM
Cronos Group Inc.	TSX: CRON	36.0	NM	31.8	NM
Tilray Inc.	NASDAQ: TILRY	14.8	NM	14.4	NM
HEXO Corp.	NYSE: HEXO	9.7	NM	8.2	NM
CannTrust Holdings Inc.	TSX: TRST	3.1	210.2	3.0	203.2
Organigram Holdings Inc.	TSX: OGI	5.8	33.7	5.1	29.8
The Supreme Cannabis Co., Inc.	TSX: FIRE	5.7	NM	4.7	NM
AVERAGE		12.5	NM	11.5	NM
MEDIAN		9.7	NM	8.2	NM
MINIMUM		3.1	NM	3.0	NM
MAXIMUM		36.0	NM	31.8	NM

Source: FRC, S&P Capital IQ

The average EV/R, as of January 13, 2020, was 11.5x – a decrease from an average EV/R of 12.5x on January 6, 2020. As a number of companies are not EBITDA positive, we have refrained from tracking the average Enterprise Value to EBITDA (“EV/EBITDA”).

In the following, we provide commentary on Canadian retail cannabis pricing.

Canadian Retail Cannabis Pricing

Province (As of 2020/1/13)	Average Price per Gram	Average Price THC per Gram	Average Price per Gram CBD	# of Products	Min. Price	Max. Price
B.C.*	\$ 10.34	\$ 10.36	\$ 10.15	97	\$ 6.28	\$ 15.71
Ontario	\$ 10.78	\$ 10.94	\$ 9.97	221	\$ 5.00	\$ 22.66
Quebec*	\$ 9.82	\$ 9.73	\$ 10.39	130	\$ 4.91	\$ 14.55
Alberta*	\$ 11.57	\$ 11.64	\$ 11.11	225	\$ 4.58	\$ 20.43
N.B.	\$ 10.42	\$ 10.51	\$ 9.86	115	\$ 5.53	\$ 16.28
P.E.I.*	\$ 10.89	\$ 10.92	\$ 10.63	111	\$ 6.28	\$ 18.04
Newfoundland*	\$ 10.23	\$ 10.25	\$ 10.18	109	\$ 5.97	\$ 15.40
Yukon*	\$ 13.99	\$ 14.65	\$ 12.02	16	\$ 9.80	\$ 16.15
N.S.	\$ 11.14	\$ 11.23	\$ 10.39	124	\$ 7.64	\$ 18.42
Nunavut*	\$ 12.37	\$ 13.89	\$ 12.47	25	\$ 10.78	\$ 18.69
Northwest Territories*	\$ 13.13	\$ 14.44	\$ 3	\$ 14.44	\$ 14.44	
Manitoba	\$ 12.52	\$ 12.76	\$ 11.43	220	\$ 6.28	\$ 21.68
Saskatchewan	\$ 13.16	\$ 13.21	\$ 12.87	137	\$ 8.49	\$ 21.37
CANADA	\$ 11.57	\$ 11.89	\$ 10.96			

Province (As of 2020/1/6)	Average Price per Gram	Average Price THC per Gram	Average Price per Gram CBD	# of Products	Min. Price	Max. Price
B.C.*	\$ 10.59	\$ 10.65	\$ 10.10	100	\$ 6.57	\$ 15.71
Ontario	\$ 10.77	\$ 10.93	\$ 9.97	223	\$ 5.00	\$ 22.66
Quebec*	\$ 9.82	\$ 9.73	\$ 10.39	130	\$ 4.91	\$ 14.55
Alberta*	\$ 11.55	\$ 11.61	\$ 11.11	223	\$ 4.58	\$ 20.43
N.B.	\$ 10.61	\$ 10.62	\$ 10.55	115	\$ 5.53	\$ 16.28
P.E.I.*	\$ 10.87	\$ 10.91	\$ 10.63	110	\$ 6.28	\$ 18.04
Newfoundland*	\$ 10.23	\$ 10.25	\$ 10.18	109	\$ 5.97	\$ 15.40
Yukon*	\$ 14.44	\$ 15.18	\$ 12.02	17	\$ 9.80	\$ 16.15
N.S.	\$ 11.14	\$ 11.23	\$ 10.39	124	\$ 7.64	\$ 18.42
Nunavut*	\$ 12.37	\$ 13.89	\$ 12.47	25	\$ 10.78	\$ 18.69
Northwest Territories*	\$ 13.13	\$ 14.44	\$ 3	\$ 14.44	\$ 14.44	
Manitoba	\$ 12.52	\$ 12.76	\$ 11.43	220	\$ 6.28	\$ 21.68
Saskatchewan	\$ 13.16	\$ 13.21	\$ 12.87	137	\$ 8.49	\$ 21.37
CANADA	\$ 11.63	\$ 11.95	\$ 11.01			

Source: Online Provincial Cannabis Store, FRC

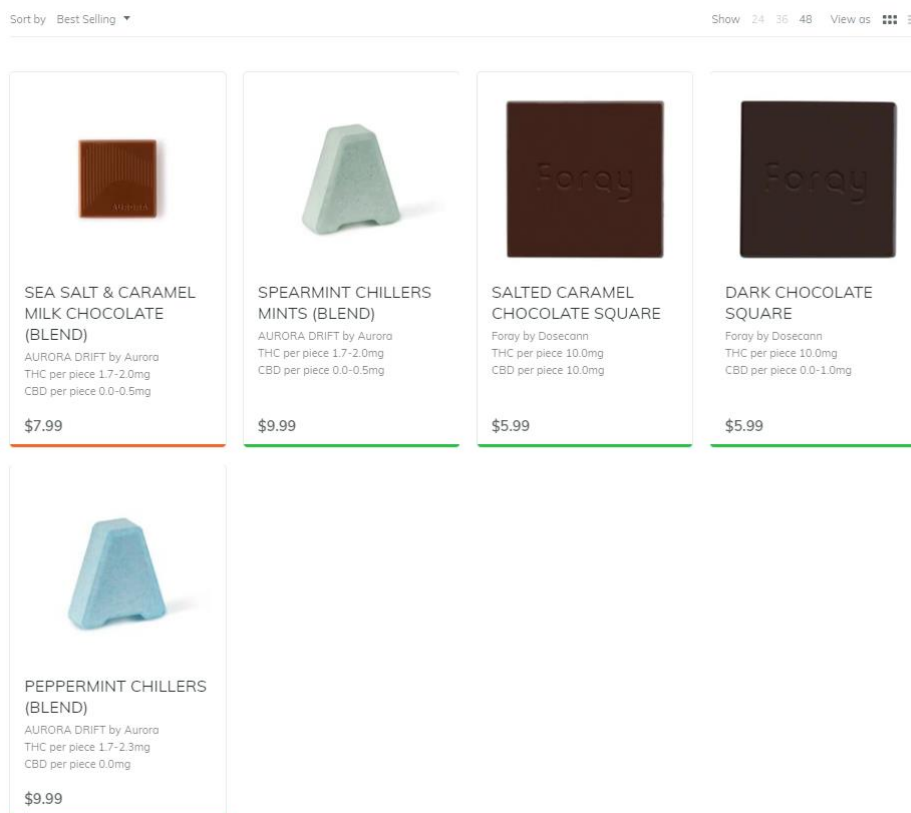
As expected, the average retail price per gram decreased from \$11.63 to \$11.57 – a week-over-week decrease of 0.55%. The largest retail price per gram decreases were witnessed in the provinces/territories of Yukon (of -3.08%), British Columbia (of -2.39%) and New Brunswick (of -1.77%). This was slightly offset by a retail price per gram increase in Alberta (of 0.25%). The other provinces/territories witnessed a nominal week-over-week increase/decrease in their retail price per gram. **Over the long-term, to combat the black market for cannabis, we expect retail price per gram to continually decline nationwide.**

With cannabis edibles and other alternative products hitting shelves across cannabis retail stores in Canada, our research has indicated that many cannabis consumers are complaining about pricing, product accessibility, and quality. Below, we give our brief take.

Although we are not qualified to speak on the quality of cannabis edibles, we acknowledge that pricing and product accessibility are pertinent issues. For example, using the British Columbia (“B.C.”) cannabis store as a proxy for prices of cannabis edibles, pricing for edibles with 10.0 mg of THC ranged from \$5.99 to \$9.99.

B.C. Cannabis Store

All edibles

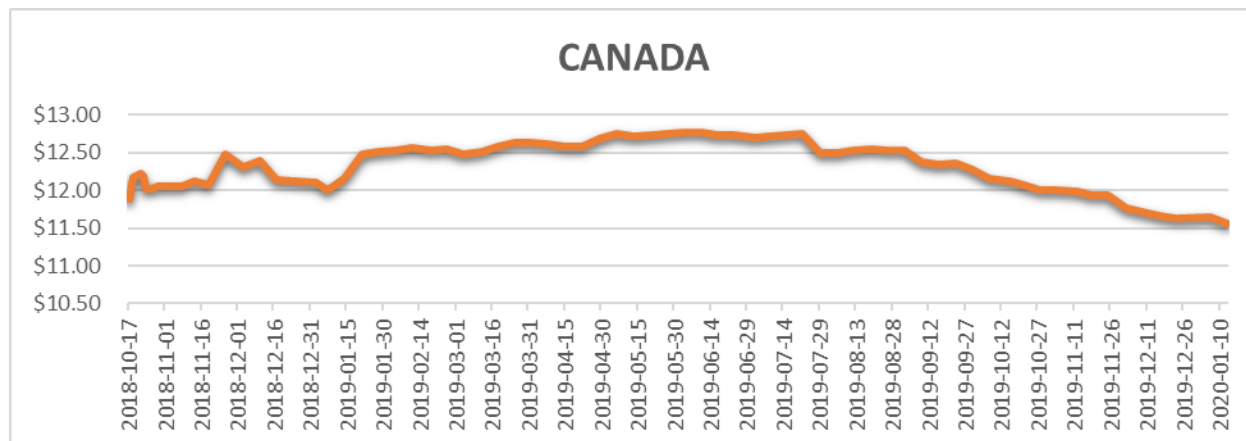


Source: <https://www.bccannabisstores.com/collections/all-edibles>

Through our research, we have found cannabis edibles on other online cannabis stores (which are technically illegal to purchase from) with a THC content of 100.0 mg sell for \$9 - \$15. As such, **cannabis edibles purchased from the black market have a significantly higher THC content while only being slightly more expensive.** Until the retail price for cannabis edibles greatly diminishes, we fail to see a scenario where legal retailers will be able to compete effectively against the black market for cannabis edibles. We continually expect price-sensitive consumers to purchase cannabis edibles illegally.

In terms of product accessibility, several news outlets have pointed to a lack of available supply for consumers. For example, Lana Paraskevopoulos (general manager of Canvas Cannabis) told reporters of the Toronto Sun that “*some products [sell] out within one or two hours.*” In addition, as readers can see from the image above, the selection of cannabis edibles seems to be severely limited. **At the moment, we believe the roll-out of cannabis edibles, and alternative cannabis products, appears to closely align to the initial roll-out of dried cannabis flower – a disaster.**

The below chart shows Canadian retail cannabis pricing since we began price coverage.



Source: FRC, Online Provincial Cannabis Store

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