

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

March 13, 2019

Beleave Inc. (CSE: BE / OTCQX: BLEVF) – Management and Board Changes

Sector/Industry: Cannabis

www.beleave.com

Market Data (as of March 13, 2019)

Current Price	\$0.10
Fair Value	\$0.57
Rating*	BUY
Risk*	4
52 Week Range	\$0.08 - \$0.48
Shares O/S	478,383,065
Market Cap	\$47.84 M
Current Yield	N/A
P/E (forward)	N/A
P/B	1.91x
YoY Return	-70.59%
YoY CSE	-33.11%

*see back of report for rating and risk definitions



Highlights

- Beleave Inc (“Beleave”, “company”) has appointed James Wasserstrom as independent chairman and appointed new directors to their board. A new CEO and CFO have also been appointed. The board revamp comes months after the company was named in a BCSC temporary order which has since expired.
- **Although the sudden resignations of the CEO and CFO took us by surprise, we see the addition of new independent board members as a positive sign.**
- The company’s sales grew in Q3-FY2018 to \$0.81 million, reflecting QoQ growth of 155.62%. Though growth was significant, Q3-FY2018’s sales were still lower than the \$1.20 million the company had forecasted for the quarter.
- The company had forecasted \$2 million in Q4-FY2018, the likelihood of which has diminished, due to the revenue miss in Q3-FY2018. **As a result, we have revised our FY2018 revenue forecast from \$3.72 million to \$2.33 million.** Our forecasts for FY2019 (\$46.70 million) and beyond remain unchanged. FY2019’s revenue forecast is significantly higher than FY2018’s as early stage production from Beleave’s London and B.C. facilities are expected to come online.
- **We are revising our fair value per share estimate of \$0.60 to \$0.57.**

Key Financial Data (FYE - Mar 31)

(C\$)	FY-2017	FY-2018E	FY-2019E
Cash	\$ 12,002,025	\$ 1,492,636	\$ 1,757,512
Working Capital	\$ 7,659,404	\$ 3,174,272	\$ 10,169,363
Assets	\$ 18,677,670	\$ 37,701,564	\$ 45,247,222
Total Debt	\$ 6,801,378	\$ 6,690,076	\$ -
Revenues	\$ -	\$ 2,331,033	\$ 46,704,375
Net Income	\$ -8,552,033	\$ -33,341,012	\$ -8,235,545
EPS (basic)	\$ -0.40	\$ -0.07	\$ -0.02

**Board Changes
to Reinforce
Independence**

The company has added a significant number of independent directors to the board. New additions include the following, with biographies provided by management:

James (Jim) Wasserstrom: In 2002, Mr. Wasserstrom led the United Nations operation overseeing Kosovo's public utilities representing \$4 billion in assets transforming many into modern and profitable businesses. From 2009-2014, Mr. Wasserstrom led the US effort to combat corruption for the United States Government in Afghanistan, engaging extensively with the military, and international organizations and governments. Jim has participated in a variety of boards and committees worldwide, predominantly focused on governance and transparency. Mr. Wasserstrom will be taking the non-executive chairmanship of the company's board of directors.

Andrew Steane: With over 25 years of software industry experience, Mr. Steane has extensive experience in sales, marketing, operations and governance. Working with legal and compliance teams, he has co-authored global policy documents and managed governance processes for multi-million-dollar marketing budgets including spend controls and measurement. In addition, Mr. Steane has led sales operations for a software business in excess of \$800 million in revenue, identifying key business trends used to set strategic direction across a global organization. He has directed cross-functional teams to build software tools required to support global KPI adoption.

Amy Nederlander: Ms. Nederlander works with world leading executives, corporations, start-ups, non-profits and social impact initiatives to create profitability through content and brand development, consumer engagement, and strategic partnerships. Ms. Nederlander is the CEO and Co-Founder of L!FE Leaders, Inc. which focuses on teaching skills for career success. She also built eProv Studio into a multi-platform business promoting entrepreneurship and is well known for her extensive involvement in the theater and entertainment business having produced a number of Broadway and off-Broadway productions. Ms. Nederlander has an MBA from Columbia Business School and a Bachelors from the University of Michigan.

In addition, Kevin Keagan, an insider to the company, will also be joining as a director.

Kevin Keagan: Mr. Keagan brings over 25 years' experience in capital markets and financial services to provide oversight to the operation, expansion, and direction of Beleave's communications and capital markets initiatives. Having spent over 13 years as Head of Equity Trading at two of the largest asset managers in Canada, Mr. Keagan offers unique insight to the inner workings of investment decision-making process and has developed a close working relationship with broker dealers and investment managers on a global scale.

In addition to the changes to the company's board of directors, executive level management has also undergone a refresh. Previous CEO Andrew Wnek and CFO Bojan Krasic have stepped down from their positions, as well as resigning their directorships. Previous COO Bill Panagiotakopoulos has ascended to the CEO position, and Kevin Keagan is serving as interim CFO until such a time as a permanent CFO can be appointed. In addition, previous directors Mark Miles and Mark Heselton will also be stepping down from their

directorships.

The company’s new management and board are summarized in the table below.

Individual	Position	Common Shares	% of Total
Bill Panagiotakopoulos	CEO & Director	4,102,278	0.86%
Roger Ferreira	CSO & Director	4,210,053	0.88%
Kevin Keagan	CFO & Director		
James Wasserstrom	Chairman		
Andrew Steane	Director		
Amy Nederlander	Director		
		8,312,331	1.74%

Source: SEDI, FRC

The company’s refreshment of their board of directors comes weeks after the British Columbia Securities Commission (“BCSC”) named Beleave as a respondent in a temporary order dated November 26, 2018, in connection with distributions to certain individuals connected to the "BridgeMark Group". The BCSC investigation concerned the improper use of consultant stock compensation to issue stock without filing a prospectus to individuals within BridgeMark. It was further stated that the majority of capital paid by BridgeMark for the issued stock was then returned to them, and BridgeMark sold shares of the issuers on the open market, often at steep discounts. The Temporary Order issued by the BCSC involved 11 issuers including the company, who had engaged in dealings with BridgeMark. The Executive Director of the BCSC sought an extension of the Temporary Order pending the conclusion of the BCSC's investigation and held a hearing on December 7, 2018. On January 15, 2019, the BCSC issued a decision resulting in Beleave no longer being subject to the Temporary Order. The BCSC's investigation is ongoing. Based on our discussion with the new management, Beleave is reviewing the agreements with the BridgeMark Group and will assess these agreements to ensure it has received value-for-money.

Whilst the percentage of the board made up by independent directors has not changed, the background of the new appointees, in particular the new chairman (governance, transparency, and anti-corruption), suggests potential near-term improvement in corporate governance initiatives. A focus on corporate governance will also serve to keep management accountable to shareholders, preventing mis-management and actions that may enrich insiders at the expense of shareholders. We believe a focus on corporate governance is vital for companies undergoing growth.

We also note that the company incurred a cash expense of over \$8 million in Q1-FY2018 related to consulting fees. It is unclear what portion, if any, of this expense was tied to the BridgeMark agreements. During this period, the company was also undergoing significant M&A and growth initiatives, and a large consulting fee may have been tied to these initiatives.

The company reported sales of \$0.81 million in Q3-FY2018, up 155.62% QoQ from Q2-FY2018’s sales of \$0.32 million. Revenue for the first nine months of FY2018 was \$1.33 million. The strong revenue growth was due to recreational sales.

BCSC Investigation and Temporary Order

QoQ Revenue Growth

Explosive, but Short of Guidance

The normalized gross profit of the company in Q3-FY2018, after excluding fair value adjustment on biological assets, was \$0.81 million. The gross margin of 100.08% is due to negative COGS, though management have not disclosed the reasons for the negative COGS.

STATEMENTS OF OPERATIONS				
(in C\$) - YE Mar 31st	Q3-2017	Q3-2018	2017 (9M)	2018 (9M)
Revenue		806,765		1,331,033
COGS		-685		12,320
Gross Profit (Before FV Adjustment)	-	807,450	-	1,318,713
Fair Value Adjustment on Biological Assets		(1,180,663)		(3,495,032)
Gross Profit	-	1,988,113	-	4,813,745
EXPENSES				
SG&A Expense	1,376,338	2,083,381	2,734,907	16,271,297
Share-based Compensation	341,632	727,774	3,297,193	12,965,008
EBITDA	(1,717,970)	(823,042)	(6,032,100)	(24,422,560)
Depreciation & Amortization	136,979	30,018	282,522	209,593
EBIT	(1,854,949)	(853,060)	(6,314,622)	(24,632,153)
Financing Costs				
EBT	(1,854,949)	(853,060)	(6,314,622)	(24,632,153)
Non-Recurring Expenses	10,430	1,406,955	586	239,171
Taxes				
Net Profit (Loss)	(1,865,379)	(2,260,015)	(6,315,208)	(24,871,324)
FOREX Translation		-427,541		-627,541
Comprehensive Net Profit (Loss)	(1,865,379)	(2,687,556)	(6,315,208)	(25,498,865)
Shares outstanding	241,399,396	446,138,510	223,412,252	387,587,114
EPS	- 0.01	- 0.01	- 0.03	- 0.06

Source: FRC, Financial Statements

Though the QoQ growth was impressive, the \$0.81 million actual revenue falls short of the \$1.20 million guidance provided by the company in the previous quarter. According to the company, revenue was expected to reach \$1.20 million in Q3-FY2018, before growing to approximately \$2 million in Q4-FY2018. **We are revising our FY2018 full-year revenue forecast from \$3.72 million to \$2.33 million.** Our FY2019 revenue forecast remains unchanged at \$46.70 million. The significant jump YoY in revenue is due to the company's London, Ontario facility, and B.C. production facilities, coming online during FY2019. This is expected to bring sales to almost 10 tons of cannabis during FY2019.

Our revenue forecasts past FY2018 remained unchanged. Short-term income statement projections are provided below:

STATEMENTS OF OPERATIONS		
(in C\$) - YE Mar 31st	2018E	2019E
Revenue	2,331,033	46,704,375
COGS	32,513	23,966,719
Gross Profit (Before FV Adjustment)	2,298,521	22,737,656
Fair Value Adjustment on Biological Assets	(4,368,790)	
Gross Profit	6,667,311	22,737,656
EXPENSES		
SG&A Expense	19,525,556	23,352,188
Share-based Compensation	15,558,010	7,005,656
EBITDA	(32,785,046)	(7,620,188)
Depreciation & Amortization	316,796	615,357
EBIT	(33,101,841)	(8,235,545)
Financing Costs		
EBT	(33,101,841)	(8,235,545)
Non-Recurring Expenses	239,171	
Taxes		
Net Profit (Loss)	(33,341,012)	(8,235,545)
FOREX Translation		
Comprehensive Net Profit (Loss)	(33,341,012)	(8,235,545)
Shares outstanding	478,383,065	478,383,065
EPS	- 0.07	- 0.02

Source: FRC

Selling General & Administrative (“SG&A”) expenses increased 51.37% YoY to \$2.08 million in Q3-FY2018, versus \$1.38 million in Q3-FY2017. SG&A expenses for the first nine months of FY2018 were \$16.27 million. The significant increase in the quarter was due to substantial growth in salaries/ wages and production costs.

The company reported a net loss of \$2.26 million (EPS: -\$0.01) in Q3-FY2018. This compares to a net loss of \$1.87 million (EPS: -\$0.01) in Q3-FY2017. For the first nine months of FY2018, the company reported a net loss of \$24.87 million (EPS: -\$0.06) compared to a net loss of \$6.32 million (EPS: -\$0.02) during the first nine months of FY2017. **As we lowered our estimates on SG&A and stock based compensation (partially offset by lower revenues), we are revising our net loss estimate for FY2018 from \$35.09 million (EPS: -\$0.08) to \$33.34 million (EPS: -\$0.07).** Our FY2019 net loss estimate is unchanged at \$8.24 million (EPS: -\$0.02).

Cash Flows

The following table provides a summary of Beleave’s cashflows. Operating cashflows decreased substantially YoY due to the significant increase in operating expenses and net losses. Cash used in investing activities also rose significantly YoY, reflecting capital outlays for property, plant and equipment (“PPE”) and acquisition-related expenditures. As a result of the deepening net loss and increased cash used in investing activities, the company’s free cash flows (“FCF”) diminished significantly YoY.

Liquidity Remains High

Summary of Cash Flows		
(\$, mm)	2017 (9M)	2018 (9M)
Operating	-\$2.43	-\$17.46
Investing	-\$2.32	-\$7.05
Financing	\$16.04	\$14.29
Effects of Exchange Rate	\$0.00	-\$0.02
Net	\$11.29	-\$10.24
Free Cash Flows to Firm (FCF)	-\$4.75	-\$24.51

Source: FRC, Financial Statements

At the end of Q3-FY2019, the company had a cash position of \$1.76 million and working capital of \$2.38 million, as well as a current ratio of 1.35x. The debt held on the company's balance sheet is the D.O.P.E. note forwarded to the company by Auxly Cannabis Group (TSXV: XLY), which we had discussed in our previous reports, as well as a small debt carried over from the Medi-Green acquisition.

(in CS) - YE Mar 31st		
Liquidity & Capital Structure		Q3-2018
Cash	\$	1,764,939
Working Capital	\$	2,381,420
Current Ratio		1.35
LT Debt	\$	2,274,113
Total Debt	\$	7,664,986
LT Debt / Capital		0.07
Total Debt / Capital		0.23
Total Invested Capital	\$	30,958,650

Source: FRC, Financial Statements

Stock Options and Warrants: We estimate that the company has 38.68 million stock options (weighted average exercise price of \$0.25) and 81.66 million warrants (weighted average exercise price of \$0.24) outstanding. 13.69 million options and none of the warrants are currently in the money. **The company will be able to raise up to \$0.96 million if all these in the money options are exercised.**

Valuation

DCF Valuation

Our updated DCF valuation on Beleave's shares is \$0.57 per share. Our previous DCF valuation was \$0.60. Our models are summarized below:

DCF Model	Q4-2018E	2019E	2020E	2021E	2022E	2023E	2024E	Terminal
EBIT(1-tax)	\$ -8,469,688	\$ -8,235,545	\$ 7,663,833	\$ 25,137,920	\$ 39,630,780	\$ 49,293,689	\$ 55,654,183	
Non-Cash Expenses	\$ 1,783,916	\$ 7,621,014	\$ 16,275,877	\$ 13,987,378	\$ 9,006,690	\$ 10,423,803	\$ 11,127,680	
Investment in WC	\$ 764,421	\$ -2,530,516	\$ -12,863,921	\$ -10,578,868	\$ -5,363,126	\$ -4,327,217	\$ -1,291,144	
CFO	\$ -5,921,351	\$ -3,145,048	\$ 11,075,789	\$ 28,546,430	\$ 43,274,344	\$ 55,390,275	\$ 65,490,719	
CAPEX	\$ -1,077,806	\$ -4,900,000	\$ -1,500,000	\$ -1,650,000	\$ -1,815,000	\$ -1,996,500	\$ -2,196,150	
FCF	\$ -6,999,157	\$ -8,045,048	\$ 9,575,789	\$ 26,896,430	\$ 41,459,344	\$ 53,393,775	\$ 63,294,569	\$ 65,193,406
PV	\$ -6,966,185	\$ -7,149,240	\$ 7,597,798	\$ 19,054,160	\$ 26,224,039	\$ 30,154,336	\$ 31,915,934	\$ 365,260,134
Discount Rate	12%							
Terminal Growth Rate	3%							
Total PV	\$ 466,090,977							
Cash - Debt	\$ -5,900,047							
Equity Value	\$ 460,190,930							
Shares O/S (dil)	482,488,565							
Fair Value	\$ 0.57							

Source: FRC

We are revising our fair value per share estimate on Beleave’s shares from \$0.60 per share to \$0.57 per share and maintaining our BUY rating on the company.

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- The company operates in an industry that is highly regulated and subject to material change from governmental intervention.
- There is no guarantee that the company will be granted Health Canada licenses for its future production facilities, or future facility expansions. Failure to secure licensing will materially impact the company’s valuation.
- No guarantee that the company will be able to sell the cannabis produced at their facilities, nor successfully secure further long-term supply contracts.
- Contamination risk and other risks associated with biological/ agricultural production.
- Access to capital and share dilution.
- Liquidity risk.

We are maintaining our risk rating of 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS			
(in C\$) - YE Mar 31st	2017	2018E	2019E
Revenue		2,331,033	46,704,375
COGS		32,513	23,966,719
Gross Profit (Before FV Adjustment)	-	2,298,521	22,737,656
Fair Value Adjustment on Biological Assets		(4,368,790)	
Gross Profit	-	6,667,311	22,737,656
EXPENSES			
SG&A Expense	2,546,650	19,525,556	23,352,188
Share-based Compensation	5,958,794	15,558,010	7,005,656
EBITDA	(8,505,444)	(32,785,046)	(7,620,188)
Depreciation & Amortization		316,796	615,357
EBIT	(8,505,444)	(33,101,841)	(8,235,545)
Financing Costs			
EBT	(8,505,444)	(33,101,841)	(8,235,545)
Non-Recurring Expenses	46,589	239,171	
Taxes			
Net Profit (Loss)	(8,552,033)	(33,341,012)	(8,235,545)
FOREX Translation			
Comprehensive Net Profit (Loss)	(8,552,033)	(33,341,012)	(8,235,545)
Shares outstanding	21,560,102	478,383,065	478,383,065
EPS	- 0.40 -	0.07 -	0.02

BALANCE SHEET			
(in C\$) - YE Mar 31st	2017	2018E	2019E
ASSETS			
CURRENT			
Cash and Cash Equiv.	12,002,025	1,492,636	1,757,512
A/R		233,103	1,167,609
GST Receivable	181,171	739,725	739,725
Prepaid Expenses	2,270,530	1,702,898	2,128,622
Biological Assets		4,368,790	4,368,790
Inventory		699,310	2,335,219
Total Current Assets	14,453,726	9,236,462	12,497,477
PPE	4,223,944	12,307,148	16,591,791
Intangibles		4,500,000	4,500,000
Other			
Goodwill		11,657,954	11,657,954
Total Assets	18,677,670	37,701,564	45,247,222
LIABILITIES			
CURRENT			
A/P	2,483,322	1,862,492	2,328,114
Loans Payable	4,311,000	4,199,698	
Shareholder Loans			
Total Current Liabilities	6,794,322	6,062,189	2,328,114
Note Payable	2,490,378	2,490,378	
Total Liabilities	9,284,700	8,552,567	2,328,114
SHAREHOLDERS EQUITY			
Share Capital	25,058,199	60,497,228	75,497,228
Shares to be Issued			
Units to be Issued			
Minority		2,100,000	2,100,000
Reserves	9,662,307	25,220,317	32,225,973
AOCI			
Deficit	(25,327,536)	(58,668,548)	(66,904,093)
Total shareholders' equity (deficiency)	9,392,970	29,148,997	42,919,108
Total Liabilities and Shareholders Equity	18,677,670	37,701,564	45,247,222

STATEMENTS OF CASH FLOWS			
(in C\$) - YE Mar 31st	2017	2018E	2019E
OPERATING ACTIVITIES			
Net Profit for the Year	(8,552,033)	(33,341,012)	(8,235,545)
Adjusted for items not involving cash:			
Share-based Compensation	5,958,794	15,558,010	7,005,656
Interest on Note Payable			
Fair Value of Biological Assets		(4,368,790)	
Listing Cost (non-cash)			
Fair Value of Note Payable			
Loss on Debt Settlement	46,589		
Depreciation		316,796	615,357
Funds From Operations	(2,546,650)	(21,834,997)	(614,531)
Change in working capital			
GST Receivable	(171,342)	(558,554)	-
A/R		(233,103)	(934,506)
Prepaid Expenses	6,176	567,633	(425,724)
A/P	1,447,067	(620,831)	465,623
Other			
Inventory		(699,310)	(1,635,909)
NET CASH USED IN OPERATING ACTIVITIES	(1,264,749)	(23,379,162)	(3,145,048)
INVESTING ACTIVITIES			
PPE	(1,000,329)	(7,227,500)	(4,900,000)
Interest and Principal of Notes Payable			
Acquisition-related		(900,000)	
NET CASH USED IN INVESTING ACTIVITIES	(1,000,329)	(8,127,500)	(4,900,000)
FINANCING ACTIVITIES			
Proceeds from Equity Issue	1,905,500	12,997,273	
Alumina Financings		8,000,000	15,000,000
Cost of Equity Issue	(37,873)		
Warrants Exercised	2,225,686		
Options Exercised			
Repayment of D.O.P.E Note			(6,690,076)
Proceeds from Note Payable			
Proceeds from units issued			
NET CASH FROM FINANCING ACTIVITIES	4,093,313	20,997,273	8,309,924
Foreign Exchange / Others			
INCREASE IN CASH FOR THE YEAR	1,828,235	(10,509,389)	264,876
CASH, BEGINNING OF THE YEAR	230,694	12,002,025	1,492,636
CASH, END OF THE YEAR	2,058,929	1,492,636	1,757,512

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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