

# Fundamental Research Corp.

Investment Analysis for Intelligent Investors

September 26, 2018

## Sunniva Inc. (CSE: SNN / OTCQX: SNNVF) – Strong Revenue Growth, Pushing Back Estimated Production Schedule

Sector/Industry: Cannabis

www.sunniva.com

### Market Data (as of September 26, 2018)

Current Price	\$5.75
Fair Value	\$32.02
Rating*	BUY
Risk*	4
52 Week Range	N/A
Shares O/S	32,045,699
Market Cap	\$184.26 M
Current Yield	N/A
P/E (forward)	N/A
P/B	2.75x
YoY Return	N/A
YoY CSE	44.3%

\*see back of report for rating and risk definitions



### Highlights

- The company reported Q2-2018 revenues (quarter ended June 30, 2018) of \$4.47 million (YoY increase of 36.25%), and a net loss of \$4.91 million (EPS: -\$0.16). Q2-2017 revenues and net losses were \$3.28 million and \$10.74 million (EPS: -\$0.42), respectively.
- For the six months, revenue grew 70.37% YoY to \$9.63 million, whilst net loss was reported at \$11.18 million (EPS: -\$0.38). Comparable 2017 revenues and net losses were \$5.65 million and \$11.71 million (EPS: -\$0.48), respectively.
- The company has pushed back guidance on the production schedule at the Sunniva California Campus. As a result, we have lowered our 2018, and 2019, revenue forecasts to \$20.09 million and \$207.37 million, respectively. Our previous forecasts were \$48.22 million and \$295.13 million, respectively.
- **We are revising our fair value per share estimate from \$39.49 to \$32.02.**

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

(CS)	FY2017	FY2018E	FY2019E
Revenue	\$ 16,072,000	\$ 20,092,500	\$ 207,365,625
Net Income	\$ -18,472,000	\$ -21,972,815	\$ 36,216,398
<b>EPS</b>	<b>\$ -0.74</b>	<b>\$ -0.58</b>	<b>\$ 1.01</b>
Cash	\$ 11,424,000	\$ 38,625,985	\$ 44,077,810
Working Capital	\$ -1,207,000	\$ 35,617,935	\$ 55,399,974
Debt	\$ 29,877,000	\$ 140,615,000	\$ 140,615,000
Total Assets	\$ 73,948,000	\$ 222,786,254	\$ 276,443,271
Shareholders' Equity	\$ 33,340,000	\$ 71,544,935	\$ 112,945,474

**Financials**

The company reported revenues of \$4.47 million in Q2-2018, versus revenue of \$3.28 million in Q2-2017, reflecting revenue growth of 36.25% on a YoY basis. For the six months, revenues in 2018 were \$9.63 million versus revenues of \$5.65 million in 2017, reflecting YoY growth of 70.37%. The following outlines significant changes and events in the quarter with regards to revenues:

- NHS revenue of \$3.18 million for Q2-2018, and \$5.84 million for the six months represented YoY growth of 29.92% and 41.83%, respectively. Growth in this segment was due to an increase in the number of clinics and Licensed Producers (“LP”) under contract.
- FSD revenue of \$1.29 million in Q2-2018 and \$3.80 million for the six months represented YoY growth of 54.94% and 146.62%, respectively. Growth in this segment was due to a larger customer base and strong Q1-2018 results (for the six months).

The tables below outlines the company’s segmented revenues, associated revenue growth, and consolidated income statements in the quarter:

	Q2-2017	Q2-2018	YoY Growth	2017 (6M)	2018 (6M)	YoY Growth
<b>NHS</b>						
Revenue	\$ 2,450,000	\$ 3,183,000	29.92%	\$ 4,114,000	\$ 5,835,000	41.83%
COGS	\$ 1,331,000	\$ 566,000	-57.48%	\$ 2,016,000	\$ 1,549,000	-23.16%
Gross Profit	\$ 1,119,000	\$ 2,617,000	133.87%	\$ 2,098,000	\$ 4,286,000	104.29%
Gross Margin	45.67%	82.22%		51.00%	73.45%	
% of Total Revenues	74.70%	71.22%		72.76%	60.57%	
<b>FSD</b>						
Revenue	\$ 830,000	\$ 1,286,000	54.94%	\$ 1,540,000	\$ 3,798,000	146.62%
COGS	\$ 713,000	\$ 1,115,000	56.38%	\$ 1,187,000	\$ 3,203,000	169.84%
Gross Profit	\$ 117,000	\$ 171,000	46.15%	\$ 353,000	\$ 595,000	68.56%
Gross Margin	14.10%	13.30%		22.92%	15.67%	
% of Total Revenues	25.30%	28.78%		27.24%	39.43%	
<b>Total Revenues</b>	\$ 3,280,000	\$ 4,469,000	36.25%	\$ 5,654,000	\$ 9,633,000	70.37%
<b>Total COGS</b>	\$ 2,044,000	\$ 1,681,000	-17.76%	\$ 3,203,000	\$ 4,752,000	48.36%
<b>Total Gross Profit</b>	\$ 1,236,000	\$ 2,788,000	125.57%	\$ 2,451,000	\$ 4,881,000	99.14%

Source: FRC, Financial Statements

<b>STATEMENTS OF OPERATIONS</b>				
<b>(C\$) - YE Dec 31st</b>	<b>Q2-2017</b>	<b>Q2-2018</b>	<b>2017 (6M)</b>	<b>2018 (6M)</b>
Revenue	3,280,000	4,469,000	5,654,000	9,633,000
COGS	2,044,000	1,681,000	3,203,000	4,752,000
<b>Gross Profit</b>	<b>1,236,000</b>	<b>2,788,000</b>	<b>2,451,000</b>	<b>4,881,000</b>
<b>EXPENSES</b>				
SG&A Expense	3,026,000	4,954,000	4,741,000	10,512,000
Leaseback Payments				
Share-based Compensation		1,936,000		4,105,000
<b>EBITDA</b>	<b>(1,790,000)</b>	<b>(4,102,000)</b>	<b>(2,290,000)</b>	<b>(9,736,000)</b>
Depreciation	691,000	719,000	1,132,000	1,420,000
<b>EBIT</b>	<b>(2,481,000)</b>	<b>(4,821,000)</b>	<b>(3,422,000)</b>	<b>(11,156,000)</b>
Financing Costs	9,000	450,000	11,000	881,000
<b>EBT</b>	<b>(2,490,000)</b>	<b>(5,271,000)</b>	<b>(3,433,000)</b>	<b>(12,037,000)</b>
Non-Recurring Expenses	8,590,000	-357,000	8,693,000	-557,000
Taxes	- 336,000	- 4,000	- 420,000	- 302,000
<b>Net Profit (Loss)</b>	<b>(10,744,000)</b>	<b>(4,910,000)</b>	<b>(11,706,000)</b>	<b>(11,178,000)</b>
FOREX Translation	- 191,000	605,000	64,000	1,009,000
<b>Net comprehensive Profit (Loss)</b>	<b>(10,935,000)</b>	<b>(4,305,000)</b>	<b>(11,770,000)</b>	<b>(10,169,000)</b>
Shares outstanding	25,638,492	31,666,028	24,170,053	29,544,426
EPS	\$ -0.42	\$ -0.16	\$ -0.48	\$ -0.38

Source: FRC, Financial Statements

The company has provided updated guidance on the production schedule for their Sunniva California Campus, stating that the first harvest will commence in Q1-2019, versus the previous estimate of Q4-2018. As a result, we have reduced our revenue forecasts to reflect the delay in revenues from cannabis production. **Our updated 2018 revenue forecast is \$20.09 million, which is our previous forecast for revenues from NHS and FSD, and which we believe the company will meet based on current performance.** Our previous 2018 revenue forecast was \$48.22 million, \$28.13 million of which, was attributable to cannabis production. **Our updated 2019 revenue forecast is \$207.37 million versus our previous forecast of \$295.13 million.**

Our updated revenue forecasts for Sunniva are presented below.

STATEMENTS OF OPERATIONS								
(CS) - YE Dec 31st	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	20,092,500	207,365,625	382,168,341	484,537,949	566,317,210	642,685,290	714,841,110	784,098,932
COGS	11,540,938	71,407,422	151,470,215	186,451,608	216,054,943	246,903,091	279,360,399	313,878,482
<b>Gross Profit</b>	<b>8,551,563</b>	<b>135,958,203</b>	<b>230,698,126</b>	<b>298,086,341</b>	<b>350,262,266</b>	<b>395,782,199</b>	<b>435,480,711</b>	<b>470,220,450</b>
<b>EXPENSES</b>								
SG&A Expense	18,396,000	52,961,181	97,605,794	123,750,992	144,637,415	164,141,823	182,570,419	200,258,867
Leaseback Payments		10,875,000	10,875,000	10,875,000	10,875,000	10,875,000	10,875,000	10,875,000
Share-based Compensation	7,183,750	5,184,141	9,554,209	12,113,449	14,157,930	16,067,132	17,871,028	19,602,473
<b>EBITDA</b>	<b>- 17,028,188</b>	<b>66,937,882</b>	<b>112,663,123</b>	<b>151,346,900</b>	<b>180,591,921</b>	<b>204,698,244</b>	<b>224,164,264</b>	<b>239,484,109</b>
Depreciation	2,485,000	6,807,750	7,888,675	7,646,329	7,438,913	7,268,103	7,136,004	7,045,206
<b>EBIT</b>	<b>- 19,513,188</b>	<b>60,130,132</b>	<b>104,774,448</b>	<b>143,700,571</b>	<b>173,153,008</b>	<b>197,430,141</b>	<b>217,028,260</b>	<b>232,438,904</b>
Financing Costs	3,318,627	10,518,627	10,518,627	9,600,000	9,600,000	9,600,000	9,600,000	9,600,000
<b>EBT</b>	<b>- 22,831,815</b>	<b>49,611,505</b>	<b>94,255,821</b>	<b>134,100,571</b>	<b>163,553,008</b>	<b>187,830,141</b>	<b>207,428,260</b>	<b>222,838,904</b>
Non-Recurring Expenses	- 557,000							
Taxes	- 302,000	13,395,106	25,449,072	36,207,154	44,159,312	50,714,138	56,005,630	60,166,504
<b>Net Profit (Loss)</b>	<b>- 21,972,815</b>	<b>36,216,398</b>	<b>68,806,749</b>	<b>97,893,417</b>	<b>119,393,696</b>	<b>137,116,003</b>	<b>151,422,630</b>	<b>162,672,400</b>

Source: FRC

In addition to the short-term forecast changes, we have also reduced our long-term forecasts for the company, with reductions to expected pricing in the long-term and minor changes to sales volumes in the short-term. The changes in pricing reflect our macro-view that cannabis pricing may take a larger hit than originally expected given the amount of prospective cannabis production that is believed to be coming online past the initial years of legalization.

Gross margins increased in Q2-2018 to 62.39%, compared to 37.68% in Q2-2017. For the six months, gross margins increased in 2018 to 50.67%, versus 43.35% in 2017. The increase in gross margin was due to a substantial increase in the gross profits of NHS, which produces the majority of the company's revenues.

NHS' gross margin in Q2-2018 improved to 82.22% against 45.67% for Q2-2017. For the six months, NHS' gross margin was 73.45% in 2018 versus 51.00% in 2017. FSD's gross margin declined YoY in Q2-2018 to 13.30%, from 14.10% in Q2-2017. We believe that the decline in FSD's gross margin may be attributable to a new product mix with specific product customization.

	Q2-2017	Q2-2018	2017 (6M)	2018 (6M)
<b>Total Revenues</b>	\$ 3,280,000	\$ 4,469,000	\$ 5,654,000	\$ 9,633,000
<b>Total COGS</b>	\$ 2,044,000	\$ 1,681,000	\$ 3,203,000	\$ 4,752,000
<b>Total Gross Profit</b>	\$ 1,236,000	\$ 2,788,000	\$ 2,451,000	\$ 4,881,000
<b>Total Gross Margin</b>	37.68%	62.39%	43.35%	50.67%
<b>Total EBITDA Margin</b>	-54.57%	-91.79%	-40.50%	-101.07%
<b>Total EBIT Margin</b>	-75.64%	-107.88%	-60.52%	-115.81%
<b>Total Net Margin</b>	-327.56%	-109.87%	-207.04%	-116.04%

Source: FRC, Financial Statements

SG&A expenses grew significantly YoY to \$4.95 million in Q2-2018, versus \$3.03 million in Q2-2017. For the six months, the increase in SG&A expenses was even larger, with

\$10.51 million in 2018 versus 4.74 million in 2017. This caused EBITDA margins to deteriorate on a YoY basis, from -54.57% in Q2-2017 to -91.79% in Q2-2018. For the six months, EBITDA margins were -101.07% in 2018 versus -40.50% in 2017. The deterioration can also be attributed to share-based payments, increased staffing costs and legal fees associated with becoming a publicly-traded company as of January 2018. **Normalized EBITDA margins (adjusted for share-based compensation) of the company for Q2-2018 were -48.47%, versus -54.57% for Q2-2017.**

The company reported a net loss of \$4.91 million (EPS: -\$0.16) in Q2-2018. This compares to a net loss of \$10.74 million (EPS: -\$0.42) in Q2-2017. For the six months, the company's net loss was \$11.18 million (EPS: -\$0.38) in 2018 versus \$11.71 million (EPS: -\$0.48) in 2017. **Given the delay in revenues from cannabis production, we are reducing our 2018 net earnings forecast to -\$21.97 million (EPS: -\$0.65) and \$36.22 million (EPS: \$1.13) for 2019.** Our previous net earnings forecasts were -\$3.64 million (EPS: -\$0.11) for 2018 and \$59.81 million (EPS: \$1.87).

The following table provides a summary of Sunniva's cashflows:

Summary of Cash Flows				
(\$, mm)	Q2-2017	Q2-2018	2017 (6M)	2018 (6M)
Operating	-1.40	-4.94	-2.79	-6.54
Investing	-5.47	-16.53	-8.28	-21.80
Financing	5.26	8.94	5.79	33.68
Effects of Exchange Rate	0.02	0.51	-0.04	0.76
Net	-1.60	-12.03	-5.31	6.11
<b>Free Cash Flows to Firm (FCF)</b>	<b>-6.88</b>	<b>-21.47</b>	<b>-11.07</b>	<b>-28.34</b>

Source: FRC, Financial Statements

At the end of Q2-2018, the company had a cash position of \$17.53 million and working capital of \$10.92 million, as well as a current ratio of 1.99x. Long-term debt decreased slightly to \$19.86 million in Q2-2018, whilst the total debt increased to \$23.35 million due to an increase in short-term loans.

(in CS) - YE Dec 31st			
Liquidity & Capital Structure		Q1-2018	Q2-2018
Cash	\$	29,556,000	\$ 17,530,000
Working Capital	\$	24,123,000	\$ 10,915,000
Current Ratio		3.75	1.99
LT Debt	\$	20,281,000	\$ 19,856,000
Total Debt	\$	20,281,000	\$ 23,348,000
LT Debt / Capital		0.24	0.22
Total Debt / Capital		0.24	0.26
Total Invested Capital	\$	54,151,000	\$ 72,915,000

Source: FRC, Financial Statements

**Stock Options and Warrants:** We estimate that the company has 4.21 million stock options (weighted average exercise price of \$5.21) and 0.59 million warrants (weighted average exercise price of \$3.72) outstanding. 2.15 million options and 0.53 million warrants are currently in the money. **The company has the potential to raise up to \$9.06 million if all the in-the-money options and warrants are exercised.**

**Valuation**

**Financings:** Subsequent to the quarter end, Sunniva announced a bought-deal financing on September 19, 2018. The company announced that they would issue 3.80 million units at \$5.27 per unit, for gross proceeds of \$20.03 million. Units include a single common share and a half warrant, with full warrants exercisable at \$6.85 per share.

**Discounted Cash Flow Valuation**

Our updated DCF model valuation on Sunniva’s shares is \$32.02 per share. Our previous fair value estimate was \$39.49 per share.

DCF Valuation Model	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal
EBIT (1-Tax)	\$ -6,100,747	\$ 43,894,996	\$ 76,485,347	\$104,901,417	\$126,401,696	\$144,124,003	\$158,430,630	\$169,680,400	
Non-Cash Expenses	\$ 1,065,000	\$ 6,807,750	\$ 7,888,675	\$ 7,646,329	\$ 7,438,913	\$ 7,268,103	\$ 7,136,004	\$ 7,045,206	
Investment in WC	\$ -12,950	\$-14,330,214	\$ -7,725,965	\$ -5,715,125	\$ -4,399,800	\$ -3,788,312	\$ -3,248,293	\$ -2,781,396	
CFO	\$ -5,048,697	\$ 36,372,532	\$ 76,648,057	\$106,832,620	\$129,440,809	\$147,603,793	\$162,318,341	\$173,944,210	
CAPEX	\$-102,066,000	\$-28,426,250	\$ -3,041,750	\$ -3,498,013	\$ -4,022,714	\$ -4,626,122	\$ -5,320,040	\$ -6,118,046	
FCF	\$-107,114,697	\$ 7,946,282	\$ 73,606,307	\$103,334,608	\$125,418,094	\$142,977,672	\$156,998,301	\$167,826,164	\$ 172,860,949
PV	\$-104,122,493	\$ 6,896,702	\$ 57,039,338	\$ 71,496,902	\$ 77,478,928	\$ 78,863,056	\$ 77,318,302	\$ 73,795,351	\$ 844,546,796
Discount Rate	12.00%								
Terminal Growth Rate	3%								
Total PV	\$1,183,312,882								
Cash - Debt	\$ 14,208,000								
Equity Value	\$1,197,520,882								
Shares O/S (dil)	37,401,072								
<b>Value per share</b>	<b>32.02</b>								

Source: FRC

The downward revision of our DCF valuation was due to reductions in our revenue forecast and the impact of the subsequent quarter financing. **We are revising our fair value estimate of \$39.49 per share to \$32.02 per share, and are maintaining our BUY rating on Sunniva.**

**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.
- Cannabis is illegal at the federal level in the U.S., where Sunniva intends to construct their initial production facility.
- There is no guarantee that the company will be granted an ACMPR license. Failure to secure said license will bar the company from producing or selling cannabis in Canada.
- No guarantee that the company will be able to finance the Sunniva Canada Campus facility, or phase two development at the Sunniva California Campus. Furthermore, the financing of phase one of the Sunniva California Campus is dependent upon Barker Pacific Group’s ability to raise the necessary capital to complete the phase one build-out.
- No guarantee that the company will be able to sell the cannabis produced at either Sunniva Campus facility. Supply agreements that are not legally binding may also exhibit a degree of risk.
- Contamination risk and other risks associated with biological/ agricultural production.

- Exchange rate risk associated with cross-border operations.
- Access to capital and share dilution.

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

## Appendix

<b>STATEMENTS OF OPERATIONS</b>			
<b>(C\$) - YE Dec 31st</b>	<b>FY2017</b>	<b>2018E</b>	<b>2019E</b>
Revenue	16,072,000	20,092,500	207,365,625
COGS	9,389,000	11,540,938	71,407,422
<b>Gross Profit</b>	<b>6,683,000</b>	<b>8,551,563</b>	<b>135,958,203</b>
<b>EXPENSES</b>			
SG&A Expense	14,390,000	18,396,000	52,961,181
Leaseback Payments			10,875,000
Share-based Compensation	3,981,000	7,183,750	5,184,141
<b>EBITDA</b>	<b>- 11,688,000</b>	<b>- 17,028,188</b>	<b>66,937,882</b>
Depreciation	2,526,000	2,485,000	6,807,750
<b>EBIT</b>	<b>- 14,214,000</b>	<b>- 19,513,188</b>	<b>60,130,132</b>
Financing Costs	313,000	3,318,627	10,518,627
<b>EBT</b>	<b>- 14,527,000</b>	<b>- 22,831,815</b>	<b>49,611,505</b>
Non-Recurring Expenses	5,933,000	-	557,000
Taxes	-	1,988,000	-
		302,000	13,395,106
<b>Net Profit (Loss)</b>	<b>- 18,472,000</b>	<b>- 21,972,815</b>	<b>36,216,398</b>
FOREX Translation	-	230,000	1,009,000
<b>Net comprehensive Profit (Loss)</b>	<b>- 18,702,000</b>	<b>- 20,963,815</b>	<b>36,216,398</b>
Shares outstanding	25,128,623	35,845,699	35,845,699
EPS	\$ -0.74	\$ -0.58	\$ 1.01



<b>BALANCE SHEET</b>			
<b>(CS) - YE Dec 31st</b>	<b>FY2017</b>	<b>2018E</b>	<b>2019E</b>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and Cash Equiv.	11,424,000	38,625,985	44,077,810
Restricted Cash			
A/R	2,273,000	2,009,250	20,736,563
Inventory	433,000	1,154,094	7,140,742
Assets Held For Sale			
Loan Receivable			
Prepaid Expenses	402,000	200,925	2,073,656
<b>Total Current Assets</b>	<b>14,532,000</b>	<b>41,990,254</b>	<b>74,028,771</b>
Deposits on Leases and Properties	382,000	1,947,000	1,947,000
Property, Plant, and Equipment	16,340,000	136,155,000	157,773,500
Intangible Assets	25,148,000	25,148,000	25,148,000
Goodwill	17,546,000	17,546,000	17,546,000
Other			
<b>Total Assets</b>	<b>73,948,000</b>	<b>222,786,254</b>	<b>276,443,271</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
A/P	5,621,000	5,770,469	14,281,484
Deferred Revenue	656,000	401,850	4,147,313
Secured Promissory Notes	9,262,000	-	-
ST Loans			
Warrant Liability			
Provisions	200,000	200,000	200,000
Loans from Shareholders			
<b>Total Current Liabilities</b>	<b>15,739,000</b>	<b>6,372,319</b>	<b>18,628,797</b>
Deferred Income Taxes	2,156,000	2,156,000	2,156,000
Warrant Liability	2,098,000	2,098,000	2,098,000
Finance Lease	11,120,000	11,120,000	11,120,000
Convertible Debt	9,495,000	9,495,000	9,495,000
Loans		120,000,000	120,000,000
<b>Total Liabilities</b>	<b>40,608,000</b>	<b>151,241,319</b>	<b>163,497,797</b>
<b>SHAREHOLDERS EQUITY</b>			
Share Capital	53,502,000	101,301,000	101,301,000
Equity Component of Convertible Debt	1,806,000	1,806,000	1,806,000
Warrants	2,048,000	7,243,000	7,243,000
Share Subscriptions			
Share Based Payment			
Contributed Surplus	4,755,000	11,938,750	17,122,891
Deficit	- 28,508,000 -	50,480,815 -	14,264,416
Accumulated Other Comprehensive Income	- 263,000 -	263,000 -	263,000
<b>Total shareholders' equity (deficiency)</b>	<b>33,340,000</b>	<b>71,544,935</b>	<b>112,945,474</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>73,948,000</b>	<b>222,786,254</b>	<b>276,443,271</b>

<b>STATEMENTS OF CASH FLOWS</b>				
<b>(in CS) - YE Dec 31st</b>	<b>FY2017</b>	<b>2018E</b>	<b>2019E</b>	
<b>OPERATING ACTIVITIES</b>				
Net Profit for the Year	-	18,472,000 -	21,972,815	36,216,398
<b>Adjusted for items not involving cash:</b>				
Accretion		127,000		
Provision for Lease	-	2,000		
Unrealized FOREX Loss				
Share-based payments		3,981,000	7,183,750	5,184,141
Fair Value Adjustment of Warrant Liability		6,321,000		
Gain on Settlement of FSD note				
Deferred Tax Recovery	-	1,988,000		
Finance Expense				
Bad Debt Expense		45,000		
Depreciation		2,526,000	2,485,000	6,807,750
<b>Funds From Operations</b>	-	<b>7,462,000 -</b>	<b>12,304,065</b>	<b>48,208,289</b>
<b>Change in working capital</b>				
A/R	-	880,000	263,750 -	18,727,313
Restricted Cash				
Change in Loans Receivable				
Changes in Inventory	-	210,000 -	721,094 -	5,986,648
Changes in Prepays	-	229,000	201,075 -	1,872,731
A/P		3,066,000	149,469	8,511,016
Changes in Warrant Liability				
Changes in Deferred Revenue		656,000 -	254,150	3,745,463
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	-	<b>5,059,000 -</b>	<b>12,665,015</b>	<b>33,878,075</b>
<b>INVESTING ACTIVITIES</b>				
Deposits on Properties and Leases	-	80,000 -	1,565,000	
Purchase of Licenses				
Purchase of PPE	-	18,395,000 -	122,300,000 -	28,426,250
Intangibles/ Acquisitions	-	3,904,000		-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	-	<b>22,379,000 -</b>	<b>123,865,000 -</b>	<b>28,426,250</b>
<b>FINANCING ACTIVITIES</b>				
Loans from Shareholders			9,262,000	
Proceeds on Finance Lease		11,120,000		
Repayment of Loans from Shareholders	-	11,955,000		
Proceeds from Convertible Debt		11,978,000		
Proceeds from ST Loans				
Proceeds from Loans			120,000,000	
Net Proceeds from Issuance of Warrants		6,035,000	5,195,000	
Net Proceeds from Issued Shares		4,841,000	47,799,000	
Common Shares Repurchased				
Share Subscriptions Received				
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>22,019,000</b>	<b>163,732,000</b>	<b>-</b>
Foreign Exchange / Others		230,000		
<b>INCREASE IN CASH FOR THE YEAR</b>	-	<b>5,189,000</b>	<b>27,201,985</b>	<b>5,451,825</b>
CASH, BEGINNING OF THE YEAR		9,613,000	11,424,000	38,625,985
<b>CASH, END OF THE YEAR</b>		<b>4,424,000</b>	<b>38,625,985</b>	<b>44,077,810</b>

**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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