Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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Clean Seed Capital Group Ltd. (TSXV: CSX) – New Purchase Order for CX-6 SMART Seeders and Other Major Developments

Sector/Industry: Agricultural and Farm Machinery **www.cleanseedcapital.com**

Market Data (as of March 12, 2018)

Current Price	**C$0.49**
Fair Value	**C$2.47**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$0.32 – C$0.66
Shares O/S	54,546,000
Market Cap	C$26.73 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	4.15x
YoY Return	22.50%
YoY TSXV	3.72%

*see back of report for rating and risk definitions

Highlights

- Clean Seed Capital Group Ltd. ("company", "Clean Seed") announced last month that it received a Notice of Allowance from the U.S. Patent and Trademark office for its SMART Seeder™ Intellectual Property. We consider this a significant development for the company as it not only provides patent protection, but also allows the company to target the U.S. planter and seeder markets.
- The company also secured a purchase order with Rocky Mountain Equipment (TSX: RME) with a retail value of $9 million. We expect the company to deliver up to 14 seeder units over FY2018 and FY2019.
- Clean Seed has received working capital financing from Farm Credit Canada ("FCC") for the current production of CX-6 SMART Seeders. Borrowings will be repayable via sales of Seeders.
- Clean Seed became the first company enrolled into the Saskatchewan Commercial Innovation Initiative Program, which reduces the company's provincial tax rate from 12% to 6% for 15 years, commencing at the company's choosing.
- Clean Seed's shares are up 40% since we initiated coverage in November 2016.
- We are raising our fair value estimate from $1.90 to $2.47 per share.

Key Financial Data (in C$); YE - June 30	**2015**	**2016**	**2017**	**2018 (6M)**
Revenues	-	1,050,000	-	-
Net Income	(1,247,357)	(1,212,419)	(3,606,217)	(2,597,754)
EPS (basic)	(0.04)	(0.03)	(0.08)	(0.05)
Cash	178,968	494,427	262,464	272,335
Total Debt	500,642	184,559	1,000,288	1,253,494
Debt / Capital	8.2%	2.3%	14.6%	16.3%
Total Assets	6,540,794	8,522,685	7,792,084	8,273,130

Receives Notice of Allowance from U.S.P.T.O

On February 7, 2018, the U.S. Patent and Trademark Office ("USPTO") granted Clean Seed a Notice of Allowance for its intellectual property ("IP"). The Notice of Allowance, which indicates that a patent will be issued to the company in the coming months, covers Clean Seed's precision agriculture IP, including its innovations in multi-input variable rate metering.

We see this as a significant milestone for the company. With the anticipated issuance of the USPTO patent for their suite of precision farming IP, Clean Seed has been given an avenue to disrupt the U.S. planter and seeder markets. The company has consistently outlined its business plan as follows:

- Develop a suite of precision agriculture IP focused on increasing cultivation productivity and correcting perceived inefficiencies in contemporary farming methods.
- Secure the company's IP via patent protection in all key markets.
- Commercialize the SMART Seeder IP via penetration into the world's largest planter and seeder markets. Available options for roll-out of their IP include out-licensing and mergers and acquisitions ("M&A").

With their second objective achieved for the U.S., the company is now poised to enter North America's largest planter market with their SMART Seeder technology. With their IP's best-in-class productivity-boosting capabilities, management expects to use their patent protection to evaluate strategic M&A opportunities. We believe that, as a company predominantly involved with IP generation, Clean Seed will likely attempt to secure licensing agreements with large U.S. planting equipment incumbents such as Deere & Co. (NYSE: DE) for third-party use of their SMART Seeder technology. We also believe that given the value of their IP relative to their low enterprise value ("EV"), Clean Seed presents an attractive acquisition target to incumbents in the planter space.

Two major classes of heavy farming equipment include the planter and seeder. The seeder, most commonly of the air seeder type, uses air streams to distribute seeds across crops, and is covered extensively in our initiating report. Planters and planter technology refer to dedicated planting units that utilize individual row metering using vacuum meter technology to suck individual seeds against a circular seed disc. This technology is often referred to as "singulation". This disc has perfect spacing and allows each seed to drop into a furrow at a prescribed distance. This technology is used for crops that are very sensitive to minimum distances between plants such as corn, soybeans, and cotton. Seeds that are "doubled", or "skipped" in the furrow, lead to a dramatic decrease in yield potential due to plant competition and the lack of ideal growing conditions with non-optimally spaced plants.

A report by Markets and Markets Research suggests that the global planter market could reach US$3.94 billion by 2022, reflecting a CAGR of 6.08% from a 2017 market size of US$2.93 billion. Furthermore, the North American planter market is predicted to reach US$801.4 million by 2022, reflecting a CAGR of 5.33% from a 2017 market size of US$618.1 million, according to the same source. However, management believes that this figure is too low, given observations of planter unit sales. Assuming unit sales of 7,000-

12,000 planter units per annum, at an average price of US$175,000 per unit, management estimates the North American planter market at between US$1.23 billion and US$2.1 billion. The majority of the North American planter market is concentrated in the U.S.

Furthermore, the U.S. planter market is largely dominated by large players including Deere & Co, AGCO Corp. (NYSE: AGCO), CNH Industrial NV (NYSE: CNHI) and Kinze Manufacturing Inc. Since our update report in March 2017, the precision farming transaction space has seen significant developments including:

- The acquisition of The Climate Corporation's Precision Planting business by AGCO Corp. for an undisclosed sum, announced on July 26, 2017, and closed on September 5, 2017. This follows on the heels of the failed acquisition attempt by Deere & Co, which fell through in May 2017, due to the U.S. Department of Justice's scrutiny of the transaction. Deere & Co had originally proposed to pay US$190 million for Precision Planting.
    - By acquiring Precision Planting, AGCO now effectively owns the retrofit market for precision planting singulation. Precision Planting is the dominant retrofit supplier for planters in the U.S. Management believes that Clean Seed's IP has the potential to disrupt Precision Planting's market position because of their ability to deliver multiple farming products in one pass on a planter once they develop singulation.
- On September 6, 2017, Deere & Co. signed a definitive agreement to acquire Blue River Technology, an agriculture-focused machine learning company for U$305 million.

The table below outlines key publicly-traded companies in the U.S. precision farming market:

Company	Ticker	Market Capitalization (US$, M)	Enterprise Value (US$, M)	Revenues (US$, M)	Net Income (US$, M)	EV/ R	EV/ EBITDA	P/E
AGCO Corp.	NYSE: AGCO	$5,251	$6,663	$8,307	$186	0.8	9.1	28.2
CNH Industrial N.V.	NYSE: SYF	$18,082	$39,111	$26,168	$295	1.5	19.0	61.3
Deere & Co.	NYSE: DE	$50,773	$88,758	$30,419	$1,425	2.9	18.4	35.6
Trimble Inc.	NASDAQ: TRMB	$9,290	$9,667	$2,654	$121	3.6	20.2	76.7
Raven Industries Inc.	NASDAQ: RAVN	$1,223	$1,186	$350	$37	3.4	16.6	33.1
Average						**2.4**	**16.7**	**47.0**

Source: FRC, Public Disclosures

**Note that Trimble and Raven Industries, whilst relevant to precision farming, do not sell precision planters. They instead sell precision farming components.*

Given the size of players already in the market, we believe that Clean Seed's low valuation offers an ample opportunity for incumbents. Though their SMART Seeder IP has yet to be formally adapted and transitioned into a market-ready planter model, we speculate that their existing IP portfolio may entice takeover bids similar to what has been demonstrated by the market.

Receives Purchase Order with Retail List Value of $9 million

On January 18, 2018, Clean Seed announced that it had received a milestone purchase order from Rocky Mountain Equipment ("RME") for an undisclosed number of its CX-6 SMART Seeder and SMART Cart products. The purchase order has a retail list value of $9 million, and is expected to roll-out over the coming seeding seasons. It will cover Canadian sales. Furthermore, RME have the option to increase the number of units in their purchase order based on mutual customer demand. The purchase order follows the 2016 purchase of two CX-6 SMART Seeder units for a total of $1.05 million.

According to management, the purchase order is the culmination of a joint demonstration program that both companies undertook throughout Western Canada during 2017. Readers may recall that as part of its marketing and sales strategy, and to demonstrate the superiority of their SMART Seeder technology, Clean Seed and RME had partnered to undertake a series of trade shows during 2017 at RME's 35 retail locations throughout the Canadian Prairies. As Canada's largest dealer of agricultural equipment, we see this development as a reaffirmation of the quality of Clean Seed's product.

Assuming an expected sales price of the CX-6 SMART Seeder units at $650,000, we believe that the purchase order will amount to 14 units. The roll-out is estimated at three units in 2018, with the rest held in inventory for delivery during FY2019. The structure of the purchase agreement is such that Clean Seed will incur the costs of manufacturing the units only at such time as RME receives purchase orders.

Assuming an expected cost of $300,000 per unit, we believe that Clean Seed will incur costs of $4.2 million. However, management have advised us that costs may be higher at $400,000 for the initial units. We believe this implies an estimated $3.4-$4.8 million in gross profits for the company given a contract value of $9 million, and costs of between $300,000-$400,000. This results in estimated gross margins for the firm of between 38% and 53%.

Apart from securing sales of their product within Canada, we believe that this development could encourage other distributors within Canada and the U.S. to sign on with the company. As their purchase agreement with RME covers Canada only, the company is seeking distributors to facilitate sales in the U.S. planter market, given their recent Notice of Allowance from the USPTO for their SMART Seeder IP.

Receives FCC Financing for Current Production of CX-6 SMART Seeders

On March 8, 2018, Clean Seed announced that they had received working capital financing from FCC for their current production run of CX-6 SMART Seeders. Pursuant to the purchase order announced earlier in the year, this development allows Clean Seed to transfer the financing risk associated with manufacturing costs of the CX-6 SMART Seeders. The principal and borrowing costs associated with the FCC financing are expected to be repayable via proceeds from sales of the company's seeders.

This development allows the company to significantly de-risk their operations and demonstrates the support backing the company's product. FCC is Canada's largest agricultural lender, with a $33 billion portfolio of loans made to farmers and over 1,800 employees. We see the financing of Clean Seed's production requirements as an indicator of Clean Seed's commercial viability. Furthermore, we believe that the financing allows Clean Seed to plan its production schedule and operating activities for the FY2019 period with greater clarity.

Awarded 50% Tax Reduction for 15 Years

On January 24, 2018, Clean Seed announced that they had been accepted into the new Saskatchewan Commercial Innovation Initiative ("SCII") as the first company to be approved for the patent box incentive program. This program lowers the Saskatchewan corporate tax rate to 6% from 12% for 15 years, commencing at Clean Seed' discretion.

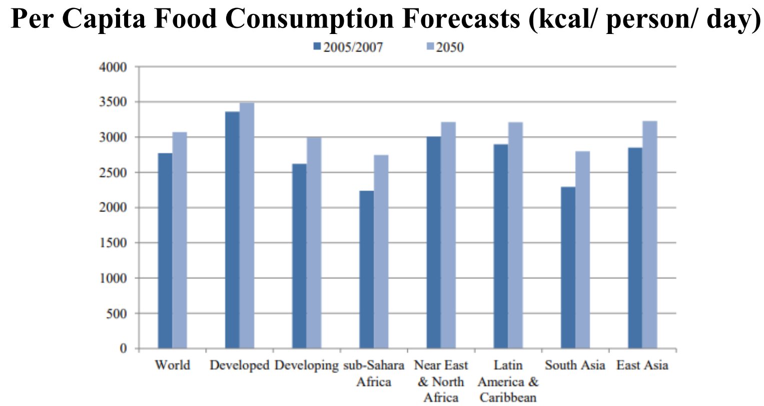
The SCII program was developed by the provincial government of Saskatchewan in order to attract companies to commercialize their IP in the province and maintain an operating presence.

The Saskatchewan Ministry of the Economy approved the economic benefits of the company's SMART Seeder technology and allowed the company to submit an alternative economic benchmark, which they approved. In this case, the alternative economic measure was incremental value-add to the farmer compared to conventional air seeders. Readers may recall from our initiating report that management estimates that their SMART Seeder technology could increase farmer's net income by approximately $100 per acre (via higher yields and lower input costs).

This development is of material significance and is timely given the company's move from patent protection to commercialization of their IP. Management have advised that they will be moving their subsidiary operations to Saskatchewan in order to claim the benefits of the SCII program, whilst maintaining their corporate office in Vancouver, British Columbia. We estimate that the new corporate tax rate that will be paid by company upon commencement of their tax-break will be 21%. This is based on a federal net corporate tax rate of 15% and the new Saskatchewan corporate tax rate for the company of 6%. We discuss further in the revenue forecasts section of this report.

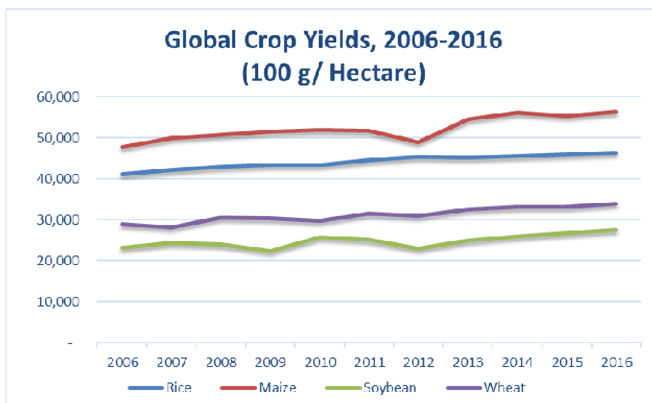
Precision Agriculture Market Overview

According to the United Nations ("UN"), the world population is expected to rise to 9.7 billion by 2050. Given a 2017 population of 7.55 billion, as reported by Worldometers, a website that provides real-time world population estimates, this implies a forward CAGR of 0.76% during the period. According to a 2009 document published by the UN Food and Agriculture Organization ("FAO"), the large increase in world population is likely to demand a 70% increase in overall food production by 2050. Furthermore, a 2012 revision of a 2006 FAO report on expected world agriculture needs in 2030, and 2050, found that per capita calorie requirements were also forecasted to increase by 2050.



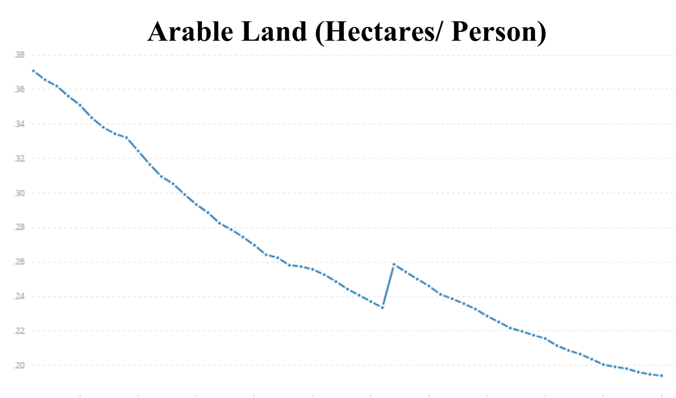
Source: FAO

Despite the need for increased food production, crop production and crop yield have remained largely flat. As the chart below shows, major crops including maize, soybean, wheat and rice have seen relatively flat growth:



Source: FAO, FRC

Compounding tepid crop yield growth are distinct challenges that threaten food security for the global population moving forward. Arable land per capita has decreased since the 1960's, suggesting that available farmable acreage is divided amongst a greater number of mouths.

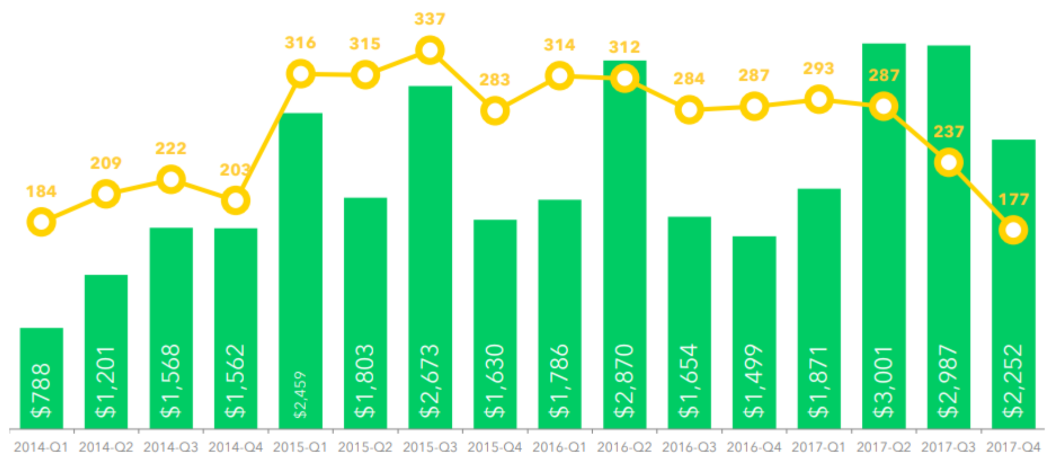


Source: World Bank

Against a backdrop of stagnant yields, increasing forward food demand, and lower availability of arable land, emphasis has shifted towards farming methods which can significantly increase productivity. These increasingly sophisticated cultivation technologies are classed under the term "precision agriculture". Precision agriculture is a farming management concept that uses technology to monitor and optimize farming processes. Precision agriculture can include productivity-improving farming techniques such as variable rate farming, which optimizes the distribution of inputs in order to reduce costs and maximize effective yield. This is one of the cornerstones of the SMART Seeder technology, which utilizes multi-input metering and variable rare delivery systems to optimize the way farmers seed their crops. Precision agriculture follows the disruptive development in seed genetics by companies such as Monsanto (NYSE: MON) that defined agricultural innovation since the 1960s, and is expected drive the next phase of crop production growth.

According to the AgTech Investing Report, approximately US$10.1 billion was raised through agriculture technology deals in 2017 (up 29% YoY).

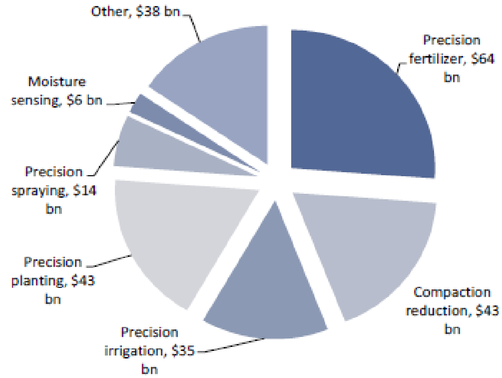
Annual Financings (US$, billions)



Source: AgTech Investing Report

According to Markets and Markets Research, the precision farming industry was valued at US$3.2 billion in 2016, and is projected to grow at a CAGR of 13.47% to US$7.87 billion in 2022. However, a 2016 report by Goldman Sachs Investment research found that the total addressable market for precision agriculture was US$240 billion.

Precision Farming Addressable Market by Technology



Source: Goldman Sachs Investment Research, obtained from https://docdrop.org/static/drop-pdf/GSR_agriculture-N1sH6.pdf

Among the segments listed, precision planting and precision fertilizer are areas that we believe could be directly addressable by Clean Seed. The combined estimated addressable market value of these segments is US$110 billion, and the technologies associated with these segments are based largely on input optimization and variable rate technologies.

Precision Planting:
$45bn addressable market, $145bn potential value-add

- Helps customize seed plantation to the requirements of each part of the field, generating 13% higher yield
- **Technology in use:** Multi-seed planters, variable-rate planting
- **Complementary technology:** Algorithmic field modeling, in-field sensors, data analysis & management
- **Major players:** AGCO, Case New Holland, Deere, Kinze, Trimble, Raven, Hexagon Agriculture, Great Plains Manufacturing

Source: Goldman Sachs Investment Research, obtained from https://docdrop.org/static/drop-pdf/GSR_agriculture-N1sH6.pdf

Precision Fertilizer Application:
$65bn addressable market, $200bn potential value-add

- Helps optimize fertilizer consumption by varying fertilizer application rates in different parts of the field; improves yield by 18%
- **Technology in use:** Weather & field modeling
- **Upcoming technology:** Mobile sensor and fertilizer application system
- **Major players:** Trimble, Raven, Monsanto, Hexagon Agriculture, Agrium, aWhere, DuPont, FarmersEdge, Adapt-N, Farm Solutions

Source: Goldman Sachs Investment Research, obtained from https://docdrop.org/static/drop-pdf/GSR_agriculture-N1sH6.pdf

Clean Seed's IP allows the company to address the market opportunity presented by precision agriculture by incorporating these disruptive technologies into their best-in-class SMART Seeder farming equipment. According to Markets and Markets Research, the global farming equipment market is forecasted to reach US$12.55 billion by 2022, reflecting a CAGR of 6.37%. As Clean Seed exits the IP generation phase and enters commercialization, we believe that their unique business model will allow them exposure to both the precision agriculture market and farming equipment markets.

Financials

The company recorded a net loss of $2.60 million in (EPS: -$0.05) in the first six months of FY2018 (period ended December 31, 2017). No revenues were reported in the period. The company had generated $1.05 million in revenues from the sale of two units to RME in FY2016.

STATEMENTS OF OPERATIONS					
(in C$) - YE June 30	2015	2016	2017	2017 (6M)	2018 (6M)
Revenues		1,050,000			
COGS		860,787			
Gross Profit	**-**	**189,213**	**-**	**-**	**-**
Operating Expenses					
G&A	995,812	1,053,507	931,069	441,981	813,518
Share based compensation	144,100	243,100	364,055	123,760	996,571
Research & Development	-	-	1,780,827	574,400	491,328
Total Operating Expenses	1,139,912	1,296,607	3,075,951	1,140,141	2,301,417
EBITDA	**-1,139,912**	**-1,107,394**	**-3,075,951**	**(1,140,141)**	**(2,301,417)**
Depreciation and amortization	29,439	90,727	473,629	242,726	237,857
EBIT	**-1,169,351**	**-1,198,121**	**-3,549,580**	**(1,382,867)**	**(2,539,274)**
Interest Expenses	29,382	14,298	56,637	17,578	58,480
EBIT	**-1,198,733**	**-1,212,419**	**-3,606,217**	**(1,400,445)**	**(2,597,754)**
Non-recurring expense	48624	-			
Tax			-		
Net Income	**(1,247,357)**	**(1,212,419)**	**(3,606,217)**	**(1,400,445)**	**(2,597,754)**
EPS	-0.04	-0.03	-0.08	-0.03	-0.05

Source: FRC, Financial Statements

At the end of Q2-2018, the company had $0.27 million in cash, with working capital of $0.22 million. The following table shows the company's cash and liquidity position.

Liquidity & Capital Structure (C$)	2014	2015	2016	2017	Q2-2018
Cash	474,198	178,968	494,427	262,464	272,335
Working Capital	(255,529)	(708,417)	370,867	(456,948)	220,158
Current Ratio	0.7	0.2	1.7	0.6	1.2
LT Debt	-	-	-	713,839	883,262
Total Debt	578,387	500,642	184,559	1,000,288	1,253,494
LT Debt / Capital	0.0%	0.0%	0.0%	10.4%	11.5%
Total Debt / Capital	10.5%	8.2%	2.3%	14.6%	16.3%

Source: FRC, Financial Statements

Stock Options and Warrants

CSX currently has 5.21 million options (weighted average exercise price – $0.46), and 1.74 million warrants (weighted average exercise price - $0.75) outstanding. Approximately 4.78 million options are currently in-the-money. The company can raise up to $2.17 million if all the in-the-money options are exercised.

Revenue and EPS Projections

We have adjusted our revenue forecasts to reflect recent events, while adjusting for the lack of sales in 2017, and a more conservative outlook on unit sales moving forward.

- Our old model, which was based on achieving 10% market share of the seeder market (annual sales of 300 units) in the northern Great Plains area of Canada and the U.S. by 2023, has now been extended to 2025.
- We incorporate revenues from potential sales to the planter market. Though we believe that the company will be able to out-license their IP to players in the space in the future, we remain conservative and assume the company will manufacture their own planters initially.
- We believe that further development of their planter designs is required and assume that a potential Clean Seed planter will only enter the market in 2020.
- We assume a price of $250,000 at a gross margin reflecting their seeder sales. Furthermore, given managements assumption of 7,000 planter units sold per annum throughout the U.S. and Canada, we assume that the company will capture a 10% market share by 2030, or 700 units.
- Our forecasting period has been greatly expanded to capture the effects of the company's reduced tax rate from their acceptance into the SCII program. The impact of a future return to the normal corporate tax rate is captured in our terminal value.

STATEMENTS OF OPERATIONS (in C$) - YE June 30	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
No. of Seeders	3	11	50	100	150	200	250	300	300	300
Average Price per Unit	642,857	642,857	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Total Revenues	1,928,571	7,071,429	32,500,000	65,000,000	97,500,000	130,000,000	162,500,000	195,000,000	195,000,000	195,000,000
No. of Planters			10	50	100	150	225	300	375	450
Average Price per Unit			250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Total Revenues			2,500,000	12,500,000	25,000,000	37,500,000	56,250,000	75,000,000	93,750,000	112,500,000
Revenues	1,928,571	7,071,429	35,000,000	77,500,000	122,500,000	167,500,000	218,750,000	270,000,000	288,750,000	307,500,000
COGS	1,200,000	4,400,000	21,000,000	46,500,000	73,500,000	100,500,000	131,250,000	162,000,000	173,250,000	184,500,000
Gross Profit	**728,571**	**2,671,429**	**14,000,000**	**31,000,000**	**49,000,000**	**67,000,000**	**87,500,000**	**108,000,000**	**115,500,000**	**123,000,000**
Operating Expenses										
G&A	2,609,692	2,121,429	8,750,000	17,437,500	27,562,500	37,687,500	49,218,750	60,750,000	64,968,750	69,187,500
Share based compensation	1,993,142	996,571	700,000	1,162,500	1,837,500	2,512,500	3,281,250	4,050,000	4,331,250	4,612,500
Total Operating Expenses	4,602,834	3,118,000	9,450,000	18,600,000	29,400,000	40,200,000	52,500,000	64,800,000	69,300,000	73,800,000
EBITDA	**-3,874,263**	**-446,571**	**4,550,000**	**12,400,000**	**19,600,000**	**26,800,000**	**35,000,000**	**43,200,000**	**46,200,000**	**49,200,000**

STATEMENTS OF OPERATIONS (in C$) - YE June 30	2028E	2029E	2030E
No. of Seeders	300	300	300
Average Price per Unit	650,000	650,000	650,000
Total Revenues	195,000,000	195,000,000	195,000,000
No. of Planters	550	650	700
Average Price per Unit	250,000	250,000	250,000
Total Revenues	137,500,000	162,500,000	175,000,000
Revenues	332,500,000	357,500,000	370,000,000
COGS	199,500,000	214,500,000	222,000,000
Gross Profit	**133,000,000**	**143,000,000**	**148,000,000**
Operating Expenses			
G&A	74,812,500	80,437,500	83,250,000
Share based compensation	4,987,500	5,362,500	5,550,000
Total Operating Expenses	79,800,000	85,800,000	88,800,000
EBITDA	**53,200,000**	**57,200,000**	**59,200,000**

Source: FRC

Our fair value estimate is $2.47 per share versus our previous estimate of $1.90 per

share. To account for our higher revenue forecast, we have raised our discount rate assumption from 12.6% to 15%. We maintain our BUY rating on CSX's shares.

We believe any of the following potential catalysts in the next 12 months will have a substantial impact on the share price.

- New distribution partners and potential for expansion into new regions in North America.
- Further development of their precision planting IP, for near-term roll-out in the large U.S planter market.
- Potential licensing or M&A activity

Risk

We believe the company is exposed to the following key risks:

- As the company recently transitioned from a R&D company to commercialization, they do not have a track record of revenues or positive cash flows.
- Ability to ramp up sales and gain market traction.
- The seeding equipment market is highly competitive and dominated by larger players.
- The planting equipment market is highly competitive and dominated by larger players. The industry also exhibits heavy consolidation, with five companies controlling 99% of market share.
- The company may be exposed to exchange rate risks based on potential sales in the U.S. and future plans to grow globally.
- The company may need to pursue financings in the future to fund expansion.
- Like any technology company, the company will always need to keep innovating and spend significant resources on R&D.
- Farm equipment sales are highly dependent on the overall health of the economy and are exposed to economic downturns. Furthermore, the life of farm equipment is being extended via component upgrades, creating less demand for sales of new farming equipment.

APPENDIX

STATEMENTS OF OPERATIONS (in C$) - YE June 30	2017	2018E	2019E
Revenues		1,928,571	7,071,429
COGS		1,200,000	4,400,000
Gross Profit	-	**728,571**	**2,671,429**
Operating Expenses			
G&A	931,069	1,627,036	2,121,429
Share based compensation	364,055	1,993,142	996,571
Research & Development	1,780,827		
Total Operating Expenses	3,075,951	4,602,834	3,118,000
EBITDA	**-3,075,951**	**-3,874,263**	**-446,571**
Depreciation and amortization	473,629	475,714	346,756
EBIT	**-3,549,580**	**-4,349,977**	**-793,327**
Interest Expenses	56,637	116,960	
EBT	**-3,606,217**	**-4,466,937**	**-793,327**
Non-recurring expense			
Tax	-		
Net Income	**(3,606,217)**	**(4,466,937)**	**(793,327)**

BALANCE SHEETS (in C$) - YE June 30	2017	2018E	2019E
ASSETS			
CURRENT			
Cash and cash equiv.	262,464	100,708	583,565
Receivables	35,677	385,714	1,414,286
Prepaid expenses	322,556	48,214	176,786
Inventory	127,889		
Total Current Assets	**748,586**	**534,636**	**2,174,636**
PP&E	108,376	314,074	364,074
IP	6,935,122	6,459,408	6,112,652
Total Assets	**7,792,084**	**7,308,118**	**8,651,362**
LIABILITIES			
CURRENT			
Accounts payable	919,085	240,000	880,000
Reated parties	286,449	286,449	286,449
Note payable			
Total Current Liabilities	**1,205,534**	**526,449**	**1,166,449**
Loans Payable	713,839	1,412,283	1,912,283
Total Liabilities	**1,919,373**	**1,938,732**	**3,078,732**
SHAREHOLDERS EQUITY			
Equity	15,768,259	17,738,728	17,738,728
Accumulated deficit	-9,895,548	-12,369,343	-12,166,099
Total shareholders' equity (deficiency)	**5,872,711**	**5,369,385**	**5,572,629**
Total Liabilities and Shareholders Equity	**7,792,084**	**7,308,118**	**8,651,362**

STATEMENTS OF CASH FLOWS (in C$) - YE June 30	2017	2018E	2019E
OPERATING ACTIVITIES			
Net loss	-3,606,217	-4,466,937	-793,327
Adjusted for items not involving cash:			
Depreciation and amortization	473,629	475,714	346,756
Foreign exchange			
Interest	56,637		
Share based compensation	364,055	1,993,142	996,571
Others	-740,834		
Change in WC			
A/R	16,300	-350,037	-1,028,571
Inventory	-116,255	127,889	0
Prepaid expenses	-107,918	274,342	-128,571
Related parties	101,890	0	0
A/P	568,667	-679,085	640,000
Net Cash From Operating Activities	**-2,990,046**	**-2,624,972**	**32,857**
INVESTING ACTIVITIES			
PP&E	-26,386	-205,698	-50,000
IP	0	0	0
Net Cash Used in Investing Activities	**-26,386**	**-205,698**	**-50,000**
FINANCING ACTIVITIES			
Equity	1,127,166	1,970,469	
Debt	1,657,304	698,444	500,000
Net Cash From Financing Activities	**2,784,470**	**2,668,913**	**500,000**
Increase in Cash for the year	-231,962	-161,757	482,857
Cash, beginning of the year	494,427	262,465	100,708
Cash, end of the year	**262,465**	**100,708**	**583,565**

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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