



Canadian Equities: Screening for Diversified Discounted Stocks

Introduction: At the Presmont Group we pride ourselves on our insights and after some absence in the markets we wanted our first note to make a splash with investors. That is why our November Note has a focus in evaluating the discounted stocks in the Canadian Small Cap market. We wanted to target companies that had a smaller Market Cap (no greater than \$50M) and larger than average revenue streams than most Small Cap companies. Our goal was also to include some instructions on how best to screen for Small Cap stocks that had significant upside so that investors could do research of their own.

Key Take Away's: What we are looking for is companies that have value intrinsically but it is not reflected in their Market Cap. Our contention is to begin searching for companies like these via the Revenue/Market Cap ratio. When used first in the screening process this ratio is a simple but effective investment metric that assesses the operating value of a business in relation to it's cost of purchase. When coupled with a Small Cap investment focus any investor can find growing businesses in early stages to best capitalize on their investment dollars.

Our take: We are looking for companies that we believe have the ability to grow, are potentially illiquid, have decent margins, some debt on their balance sheet, and have large total revenues relative to their Market Capitalization. After a screening walkthrough for these factors we have found companies we deem worthy of a deeper dive with more qualitative methods and are potentially solid investment opportunities. At the end of this report we have a final screen result which will guide our valuation and investigation of 14 particular equities in the near future, which will be part of another equity note.

Please advise equity prices are from November 28th 2017.

We will begin our screening by looking for companies on the Toronto Stock Exchange and the Toronto Venture Exchange (on a later date we might do the same for the CSE) that have the following metrics:

1. Companies that have a Market Capitalization under CAD \$50MM
2. Companies that are revenue positive (this will not include any pre-revenue companies)
3. No mining companies – this is to screen out the exploration and the more-risky business ventures (also mining tends to have specific rules and dynamics based on this industry which take time to learn and we simply want to evaluate potential growth stocks)
4. There must be a history of revenue generation and we will measure its revenue growth later in this note – companies must have generated revenue for more than 1 year

For this particular note we will define our primary search metric* as the “Revenue Recognition Ratio”.

This ratio is calculated as follows:

Taking the previous years Revenue (2016)

And then we divide this by the total Market Cap

$$\frac{\text{TR}}{\text{MK}}$$

The reason we do this first is to ensure that the value of a stock is eclipsed by its revenue, meaning that the above ratio is greater than ‘1.0’. When factoring in an entire year’s revenue being greater than the equity value (Market Capitalization) of the entire company’s common stock we can see that in theory there is an investment opportunity. The opportunity being specifically that **the company currently makes more revenues than what it is worth.**

This is one of the most efficient and failsafe ways to begin your search for an equity investment¹. Once we have identified our preferred ratio cut off and put as many equities as possible to the test based on our previous 4 requirements we can see that the table below gives us a representation of our current prospects. The list is very large to begin with but as we move along we will remove those that don’t fit further criteria. The key to success here is to alter our ‘mindset’ to think of these companies as investment vehicles and equities by consistently maintaining a quantitative focus on their performance for both increasing our speed of assessment and accuracy. Ignore the industries and names for now.

See Key Charts 1A, 1B, and 1C.

¹ We recognize there are other methods and that this is only a starting point and not a full scope valuation.

KEY CHARTS – 1A

Company Name	Market Cap	Total Revenue 2016 Annual	TR/Mkcap
Questfire Energy Corp.	\$ 46,787	\$ 32,180,438	265.74
Le Chateau Inc.	\$ 3,894,800	\$ 226,587,000	54.02
Lakeview Hotel Investment Corp.	\$ 1,075,800	\$ 22,630,541	21.04
Intrinsic4D Inc.	\$ 215,550	\$ 1,083,996	15.09
Rocky Mountain Liquor Inc	\$ 2,839,500	\$ 45,342,791	13.31
Rochester Resources Ltd.	\$ 716,100	\$ 7,405,981	10.34
Sigma Industries Inc.	\$ 5,684,200	\$ 54,615,460	8.47
Intercept Energy Services Inc.	\$ 779,300	\$ 5,516,239	7.08
NTG Clarity Networks Inc.	\$ 1,888,200	\$ 11,372,455	6.78
Partner Jet Corp.	\$ 2,633,200	\$ 13,031,532	6.11
New West Energy Services Inc.	\$ 2,600,400	\$ 11,927,912	4.59
Reco International Group Inc.	\$ 769,200	\$ 4,064,724	3.96
Russell Breweries Inc.	\$ 2,612,400	\$ 8,101,838	3.10
Sportscene Group Inc.	\$ 29,078,400	\$ 84,551,000	2.90
Mountain China Resorts Holdings	\$ 6,177,200	\$ 14,763,000	2.39
Kona Bay Technologies Inc.	\$ 638,400	\$ 1,477,571	2.31
KDA Group Inc.	\$ 3,787,200	\$ 7,946,639	2.22
Imperial Ginseng Products Ltd.	\$ 10,742,900	\$ 11,989,637	2.15
Reko International Group Inc	\$ 21,990,600	\$ 50,599,000	2.04
Spectra Inc.	\$ 1,815,300	\$ 1,549,112	1.71
New Zealand Energy Corp	\$ 9,284,800	\$ 5,866,607	1.68
International Parkside Products	\$ 2,186,800	\$ 4,658,586	1.66
Imaging Dynamics Company Ltd.	\$ 2,060,100	\$ 7,543,199	1.60
Iplayco Corporation Ltd.	\$ 11,269,800	\$ 17,023,914	1.58
Jura Energy Corporation	\$ 8,289,600	\$ 5,461,477	0.93
KFG Resources Ltd.	\$ 2,529,000	\$ 1,375,990	0.68
Monument Mining Limited	\$ 20,976,800	\$ 15,719,000	0.65
Inter-Rock Minerals Inc.	\$ 8,369,400	\$ 3,087,000	0.55

KEY CHARTS – 1B

Company Name	Market Cap	Total Revenue 2016 Annual	TR/Mkcap
Cabo Drilling Corp.	\$ 938,700	\$ 15,363,176	16.37
Capital DGMC Inc.	\$ 110,054	\$ 1,229,351	11.17
China Keli Electric Co Ltd	\$ 1,808,400	\$ 17,394,467	9.62
Adya Inc.	\$ 1,654,450	\$ 14,808,073	8.95
Blumetric Environmental Inc.	\$ 5,994,200	\$ 31,493,595	5.25
Appulse Corporation	\$ 1,977,000	\$ 8,080,344	3.50
Circa Enterprises Inc.	\$ 7,651,800	\$ 23,040,000	3.17
ATI Airtest Technologies Inc.	\$ 1,041,300	\$ 3,046,546	2.93
Asbestos Corporation Limited	\$ 681,600	\$ 2,341,000	2.75
Canyon Creek Food Company Ltd.	\$ 1,581,750	\$ 3,569,097	2.54
Cordy Oilfield Services	\$ 4,123,200	\$ 9,775,000	2.37
China Education Resources Inc.	\$ 4,736,000	\$ 13,420,347	2.36
Crown Point Energy Inc.	\$ 5,758,200	\$ 14,015,458	2.13
Aurora Spine Corporation	\$ 3,913,000	\$ 6,756,475	1.93
CEMATRIX Corporation	\$ 5,689,200	\$ 9,598,861	1.92
Canaf Group Inc.	\$ 2,845,800	\$ 4,703,528	1.65
Asian Television Network Int.	\$ 11,712,000	\$ 24,006,724	1.49
Asian Mineral Resources Ltd.	\$ 23,667,600	\$ 39,219,494	1.42
Allied Hotel Properties Inc.	\$ 9,038,050	\$ 12,319,000	1.36
Ackroo Inc.	\$ 2,521,350	\$ 2,224,165	1.27
BlueRush Media Group Corp.	\$ 3,584,900	\$ 3,572,326	1.22
49 North Resources Inc.	\$ 4,431,750	\$ 5,530,000	1.17
CHC Student Housing Corp.	\$ 4,406,400	\$ 5,301,561	1.08
Advent-AWI Holdings Inc.	\$ 15,283,200	\$ 16,156,538	1.07
Armada Data Corporation	\$ 2,473,800	\$ 2,258,188	1.02
Bevo Agro Inc.	\$ 40,222,500	\$ 31,167,250	0.96
BioNeutra Global Corporation	\$ 27,492,000	\$ 25,990,616	0.95
Annidis Corporation	\$ 1,099,500	\$ 737,724	0.67

KEY CHARTS – 1C

Company Name	Market Cap	Total Revenue 2016 Annual	TR/Mkcap
Standard Exploration Ltd.	\$ 887,800	\$ 813,353	0.92
Eight Solutions Inc.	\$ 6,686,400	\$ 3,456,435	0.52
Doxa Energy Ltd.	\$ 339,800	\$ 480,904	1.42
Divergent Energy Services Corp.	\$ 10,580,000	\$ 11,524,000	1.09
Unisync Corp.	\$ 41,191,864	\$ 52,715,728	1.28
Ellipsiz Communications Ltd	\$ 3,227,800	\$ 8,491,416	2.63
Tango Mining Limited	\$ 7,312,900	\$ 12,977,754	1.77
Wescan Energy Corp.	\$ 1,087,500	\$ 1,645,232	1.51
Sunora Foods Inc.	\$ 7,393,750	\$ 12,254,101	1.66
HTC Pureenergy Inc.	\$ 4,394,950	\$ 9,091,313	2.07
Evergreen Gaming Corporation	\$ 19,955,200	\$ 33,326,624	1.67
TekModo Industries Inc.	\$ 2,250,000	\$ 1,875,169	0.83
Xylitol Canada Inc.	\$ 4,157,200	\$ 6,967,122	1.68
eQube Gaming Limited	\$ 2,870,900	\$ 7,130,742	2.48
WestBond Enterprises Corporation	\$ 2,861,950	\$ 8,969,371	3.13
Divestco Inc.	\$ 3,661,900	\$ 15,966,000	4.36
Empire Industries Ltd.	\$ 37,598,000	\$ 117,987,000	3.14
Dynex Power Inc.	\$ 12,076,500	\$ 40,519,413	3.36
Sustainco Inc.	\$ 2,840,400	\$ 14,288,823	5.03
ZoomerMedia Limited	\$ 8,028,600	\$ 52,718,589	6.57
Enssolutions Group Inc.	\$ 479,200	\$ 2,705,763	5.65
Dalmac Energy Inc.	\$ 2,405,500	\$ 17,675,019	7.35
Tangelo Games Corp.	\$ 5,420,100	\$ 39,568,377	7.30
Sunshine Agri-Tech Inc.	\$ 720,100	\$ 5,304,374	7.37
Tornado Global Hydrovacs Inc.	\$ 2,073,600	\$ 17,049,000	8.22
Gemini Corporation	\$ 6,534,800	\$ 94,417,000	14.45
Whitemud Resources Inc.	\$ 340,300	\$ 6,796,569	19.97
Family Memorials Inc.	\$ 258,650	\$ 11,241,657	43.46

These large lists (Charts 1 A, B, and C) of companies showcases the type of variety that you can choose from when making original investment decisions. Having many choices can be confusing but this is why the numbers need to be our guide in the beginning.

There are multiple industries and product/service types in our screen ranging from Oil & Gas companies to technology/software providers. The key here is to just focus on the quantitative in order to maintain the proper 'mindset', focus on gaps in valuations not what these businesses do to earn their profits.

Investing 101

Maintaining the proper mindset when investing is integral to any investor's success and especially true with the unseasoned investor. You need to remember these stocks are products that were arbitrarily created to represent a company in a standard measurement. As with accounting the 'Market Cap', 'EBITDA', and other financial ratios were constructed so that companies that are vastly different could be valued individually and relatively to their peers. The entire concept of a 'Market Cap' is to try and simplify and standardize a company's value. Since this is how the investment is valued, bought, and sold we need to conform to this standard as well. This is why one of our first principals is to adhere to a purely quantitative approach.

From our original screen above 84 companies in total were returned to us and we need to quickly cut out the excess number of companies that do not fit our other criterium.

Further Eliminations

1. Cut out mining & mineral exploration companies
2. Also get rid of the investment, holdings companies/capital corps, and merchant banks: these companies are not truly designed for investors to partake in, they offer little liquidity, and can very often have confusing revenue and ownership structures
3. Remove real estate trusts and property management groups as well, we are looking for companies to invest in at this time, REITS and other real estate related companies are for a particular investment strategy, so we don't want our metrics skewed by them

After these steps are completed we can once again review our list. We should have a list that has been reduced greatly in size and feels less overwhelming to analyze. With these particular equities removed we can get a better picture of what is available to us for a quantitative investment after removing the companies that could skew our metrics. To make it more interesting we will also now add another metric for assessment: revenue growth.

Revenue numbers for each company are included in our data and only the companies with the highest growth rates for further scrutiny were kept (**see below**).

KEY CHARTS – 2A

Company Name	Net Revenue Growth	Revenue Growth4	Revenue Growth3	Revenue Growth2	Revenue Growth1
TekModo Industries Inc.	46879284%	257%	78%	*187516800% ²	0%
Tornado Global Hydrovac Inc.	2%	49%	-25%	-16%	0%
Tangelo Games Corp.	31%	-8%	-54%	186%	0%
KDA Group Inc.	129%	259%	169%	44%	45%
Jura Energy Corporation	72%	66%	-17%	-37%	276%
Annidis Corporation	67%	266%	83%	-61%	-20%
Sunshine Agri-Tech Inc.	64%	217%	58%	0%	-17%
Canyon Creek Food Company Ltd.	49%	58%	58%	47%	33%
International Parkside Products	30%	81%	35%	11%	-6%
Unisync Corp.	30%	15%	-14%	18%	101%
Imperial Ginseng Products Ltd.	25%	60%	60%	1%	-18%
Reco International Group Inc.	23%	24%	-7%	-13%	89%
BioNeutra Global Corporation	18%	25%	-38%	62%	23%
Imaging Dynamics Company Ltd.	15%	-64%	-82%	210%	-4%
Aurora Spine Corporation	15%	-12%	-56%	38%	89%
Sustainco Inc.	9%	-2%	-27%	16%	47%
Ackroo Inc.	9%	17%	-42%	22%	37%
Iplayco Corporation Ltd.	7%	29%	-4%	-1%	4%
Armada Data Corporation	3%	6%	6%	12%	-11%
Divergent Energy Services Corp.	3%	-25%	-63%	111%	-11%
China Education Resouces Inc.	2%	22%	-39%	6%	19%
Asbestos Corporation Limited	2%	-78%	-89%	159%	14%
Enssolutions Group Inc.	1%	-2%	-51%	7%	52%
Sportscene Group Inc.	1%	11%	-17%	9%	3%

Summary: Revenue growth rates were calculated from annual revenues of 2014, 2015, 2016, and 2017. Net revenue growth shows us the combined growth rates of 1,2,3, and 4 respectively; meaning that if there is a positive net revenue growth the company has been growing revenues over the 4 periods of time consistently. Specifically, for 2017 the net revenue growth was estimated from our proprietary model from using 2017 LTM and 2017E revenue estimates.

² *Initial Year of Revenue

When the screening of the above chart for revenue growth was completed we added in one more equation to be fair to those who have not released all of their financials for Q4 2017 (those with non-annualized financials for 2017). An example of this type of proprietary estimation will be given at a later date in another report for subscribers. Revenue growth rates are an effective way to assess a company's future value. If revenue generation has had positive growth consistently from year to year we can safely assume that the company is growing and management is delivering on their objectives for organic growth.

This shorter list of equities (24) is solid progress. With this shorter list we could begin our deeper dive into these companies qualitatively as a starting point. However, we should not be satisfied as there is a few things missing that could enhance our search and assist us in prioritizing which companies to analyze first. Although we have a concept for the future growth prospects (revenue growth) we currently don't have any framework for assessing balance sheet health of each equity.

Investing 101

Investing is fundamentally about trying to buy something that will be at one value today and another (higher) value tomorrow. One of the classic ways to do this is to assess the growth in the company's overall business model coupled with an idea of its financial health at this current state in time. Once this is completed we can decide if we feel these will change down the road and thus realize a gain when the company is revalued with a larger business and superior financial health (balance sheet).

With these estimates completed we can now effectively screen out companies that fit our top ranking criterium for growth. We will also need the next screen to include something more important with regards to the state of 'being' and 'balance sheet health' as mentioned above.

Screening metrics to add

1. The company's financial health that is debt based - Ratio of Total Debt/Total Assets
2. The company's profits and business model – Gross Profit Margin Percentage

These last two measurements of data will show us how much money a company can make off of its inputs and what state of financial health the company is in up until its last measured point (quarterly financials). See Chart Below for our final results.

KEY CHARTS – 3A

Company Name	Market Cap	Debt/Assets Ratio	Gross Margins	EV	TR/Mkcap
Tornado Global Hydrovacs Inc.	\$ 2,073,600	0.14	7%	\$ 1,065,600	8.222
Sunshine Agri-Tech Inc.	\$ 720,100	0.44	6%	\$ 4,726,227	7.366
Tangelo Games Corp.	\$ 5,420,100	0.81	69%	\$ 91,192,614	7.300
Enssolutions Group Inc.	\$ 479,200	0.85	46%	\$ 1,157,735	5.646
Reco International Group Inc.	\$ 769,200	0.03	40%	\$ 817,528	5.284
Sustainco Inc.	\$ 2,840,400	0.10	24%	\$ 2,812,512	5.031
Imaging Dynamics Company Ltd.	\$ 2,060,100	1.76	31%	\$ 24,543,302	3.662
Canyon Creek Food Company Ltd.	\$ 1,581,701	9.73	19%	\$ 21,513,841	3.573
Sportscene Group Inc.	\$ 29,120,000	0.26	68%	\$ 37,038,000	2.904
Asbestos Corporation Limited	\$ 852,000	0.00	21%	-\$ 26,196,000	2.748
KDA Group Inc.	\$ 3,156,000	0.45	18%	\$ 22,310,239	2.518
China Education Resources Inc.	\$ 6,156,800	0.13	53%	\$ 7,121,827	2.180
International Parkside Products	\$ 2,186,800	0.00	42%	\$ 1,761,949	2.130
Aurora Spine Corporation	\$ 3,214,250	0.00	50%	\$ 3,106,401	2.102
Iplayco Corporation Ltd.	\$ 11,478,500	0.22	29%	\$ 12,698,187	1.483
Divergent Energy Services Corp.	\$ 8,993,000	1.20	17%	\$ 12,486,000	1.281
Unisync Corp.	\$ 41,856,249	0.11	16%	\$ 46,925,752	1.259
Annidis Corporation	\$ 1,099,500	3.70	45%	\$ 12,406,359	1.040
Imperial Ginseng Products Ltd.	\$ 7,570,500	0.07	17%	-\$ 362,142	0.992
Ackroo Inc.	\$ 2,327,244	0.29	66%	\$ 2,759,335	0.956
BioNeutra Global Corporation	\$ 27,492,000	0.32	35%	\$ 35,798,298	0.945
Armada Data Corporation	\$ 2,562,150	0.00	78%	\$ 2,238,654	0.933
TekModo Industries Inc.	\$ 2,250,000	0.26	0%	\$ 4,362,879	0.833
Jura Energy Corporation	\$ 7,253,400	0.61	2%	\$ 36,706,547	0.753

Summary: We took the ratio of Total Debt to Total Assets to assess balance sheet health and also the Gross Margin Percentage to assess the businesses' overall profit potential. Our data gathering at this point is essentially complete. We have metrics to quantify business revenue generation in comparison to the companies' equity values, we have assessed the revenue growth history, and also their current balance sheet health and profitability. Within the current frame work we can more successfully choose the potential equities for deeper more qualitative research.

Our normal strategy would be to assess the margins of the company with more scrutiny such as where it comes from (specific products etc.) but given the operational maturity of some of these businesses the debt to assets ratio needs to be given top priority. The debt to asset ratio is a measurement that can more accurately effect share price at this point in time. The reason for this is because if not fully mature, the businesses could have fluctuations in their margins that are quite large. As an example, Tekmodo Industries is a corporation that only started recording revenues in 2016, there could be many changes to come down the road before this company reaches operational maturity.

Based on this final version of our screen we are now looking for companies that are in a particular position to provide significant upside. The profile for our investment interests must include the following:

- Equities with Growing Revenues
- High Margins
- Particularly Large Debt to Assets Ratio

In the following context it is not dangerous to be choosing companies with larger debt amounts for further scrutiny. We are ultimately looking for equities that are undervalued and overlooked by other investors so that we may capitalize on them being cheaper now rather than in the near future.

Investing 101

An investor just has to look through multiple layers of 'value distortion' to find good investments. This includes companies that carry debts. The key is to figure out if they are paying them off so that there is an opportunity to capitalize on the future company with less debt.

Why this is important

We want a company's stock less valuable, but we want its 'business' to be strong. This is a key distinction, drawing from the theory we laid down about before about the Market Cap being an arbitrary value metric. The stock price is arbitrary and a reflection of the business but the business is not arbitrary it is intrinsically valuable. For the purpose of finding discounted stocks with large growth potential we ideally want a company who has a growing business, strong margins, potentially illiquid, and has some debt on its balance sheet that will naturally make its STOCK less valuable. Meanwhile we can evaluate a business and invest in them based on their growth potential and what their future value could be.

Final Results of Our Screen

Company Name	Market Cap	Debt/Assets Ratio	Gross Margins	EV	TR/Mkcap
Canyon Creek Food Company Ltd.	\$ 1,581,701	9.7	19%	\$ 21,513,841	3.6
Imaging Dynamics Company Ltd.	\$ 2,060,100	1.8	31%	\$ 24,543,302	3.7
Enssolutions Group Inc.	\$ 479,200	0.8	46%	\$ 1,157,735	5.6
Tangelo Games Corp.	\$ 5,420,100	0.8	69%	\$ 91,192,614	7.3
KDA Group Inc.	\$ 3,156,000	0.4	18%	\$ 22,310,239	2.5
Sunshine Agri-Tech Inc.	\$ 720,100	0.4	6%	\$ 4,726,227	7.4
Sportscene Group Inc.	\$ 29,120,000	0.3	68%	\$ 37,038,000	2.9
TekModo Industries Inc.	\$ 2,250,000	0.3	0%	\$ 4,362,879	0.8
Iplayco Corporation Ltd.	\$ 11,478,500	0.2	29%	\$ 12,698,187	1.5
Tornado Global Hydrovac Inc.	\$ 2,073,600	0.1	7%	\$ 1,065,600	8.2
Unisync Corp.	\$ 41,856,249	0.1	16%	\$ 46,925,752	1.3
Sustainco Inc.	\$ 2,840,400	0.1	24%	\$ 2,812,512	5.0
Reco International Group Inc.	\$ 769,200	0.0	40%	\$ 817,528	5.3
Asbestos Corporation Limited	\$ 852,000	0.0	21%	-\$ 26,196,000	2.7

Conclusion

These equities above represent the product of our screening metrics and have passed the test and are now ready for further review. All of which have under \$50MM Market Cap, Revenue Recognition ratios above 1.0 (save for Tekmodo which is a special case), debt ratios were preferably large, and margins were preferably greater than 20%.

Moving Forward

These factors are imperative but we plan to systematically walk through each equity reviewed today and perform deeper qualitative analysis. The next stage of which will include more adherence to what are considered more 'fundamental' analysis of equities. In order to see the next phase of our research on these companies you must watch for our 'flash company notes' that will be coming out on the companies listed in our table above. If you want access to these reports on a more consistent basis you can visit www.premont.com where we publish all of our work as soon as we finish publishing it, other outlets for our work have a time delay on production.

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