Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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June 3, 2015

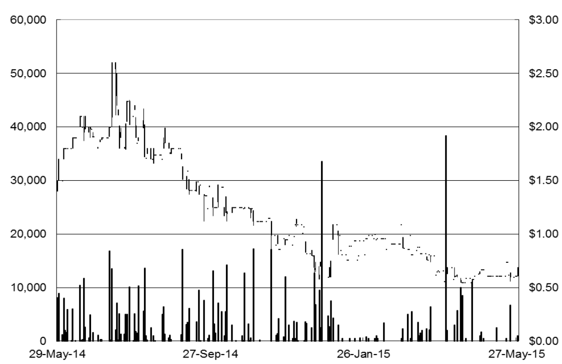
Viridis Energy Inc. (TSXV: VRD) – Record Revenues in Q1-2015 / Weak Margins at Scotia

Sector/Industry: Renewable Energy (Biomass) **www.viridisenergy.ca**

Market Data (as of June 3, 2015)

Current Price	**C$0.69**
Fair Value	**C$1.20**
Rating*	**BUY**
Risk*	**3 (Average)**
52 Week Range	C$0.46 - C$2.60
Shares O/S	13,845,190
Market Cap	C$9.55 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	5.3x
YoY Return	-61.7%
YoY TSXV	-29.6%

*see back of report for rating and risk definitions



Investment Highlights

- Viridis Energy Inc. ("Viridis", "VRD") reported record revenues of $8.77 million, up 55.4% YOY, in Q1-2015 (quarter ended March 31, 2015).
- Although Scotia and Viridis Merchants Inc. ("VMI") recorded strong sales growth, OPC sales remained flat.
- The company continues to maintain a diversified client base across residential customers in the Northeastern U.S., and power generation companies in Europe.
- Scotia has yet to break-even. The company shut down the plant for maintenance for a few weeks in April/May, implying there will be a QOQ drop in Q2 sales.
- In order to get the plant to be profitable, the company has decided to run the plant for just 4 days a week to cut costs. In their conference call, management indicated that they expect Scotia to break-even in Q3.
- We have slightly raised our 2015 revenue forecast from $34.20 million to $34.70 million. We revised our net loss forecast from $1.55 million (EPS: -$0.11) to $2.73 million (EPS: -$0.20) as we lowered Scotia's gross margin estimates.
- The total debt on the balance sheet increased from $7.98 million at the end of 2014, to $9.51 million at the end of Q1, as the company received an additional working capital loan from its largest shareholder, Cornwall Investments.
- As mentioned in our initiating report, the wood pellet industry is highly poised for consolidation with multiple M&A activities in the recent past. We believe Viridis has built a strong platform to grow organically and through acquisitions, and position itself as a good acquisition target for larger players.

Key Financial Data (FYE - Dec 31) (C $)	2010	2011	2012	2013	2014	2015E	2016E
Cash	-	598,696	413,570	1,594,246	2,058,334	879,646	13,865
Working Capital	(3,925,131)	(2,250,304)	(6,824,657)	659,690	852,328	(7,199,926)	(1,482,157)
Total Assets	15,838,963	15,344,456	10,305,039	13,389,431	15,082,999	13,941,658	14,869,355
LT Debt to Capital	3.9%	27.0%	0.0%	62.9%	63.2%	13.5%	66.0%
Revenues	6,934,979	12,354,206	9,548,177	13,918,816	28,209,683	34,700,000	39,037,000
Net Income	(1,162,100)	(4,202,687)	(9,540,048)	(3,303,686)	(4,699,676)	(2,727,350)	(1,392,547)
EPS	-0.05	-0.12	-0.19	-0.34	-0.35	-0.20	-0.08

Record Revenues

Q1-2015 revenues grew by 55.4% YOY to $8.77 million. The company did not disclose segmented revenues or margins. However, the company did disclose that growth came from VMI and Scotia.

Viridis sold approximately 37,700 tonnes in Q1-2015, at an average price of $232.5/t. Although the average pricing was higher, sales were slightly lower than our estimate.

Scotia produced 18,600 tonnes in Q1, up 41% QOQ. The division continued to experience negative gross margins. Management attributed the negative margins primarily to the adverse weather conditions which resulted in higher moisture content in raw materials, which resulted in increased costs. Subsequent to the quarter-end, the company shut down the plant for maintenance, and due to road closures in the province. The road closure occurs every year during spring break up when the weather warms up and trucks are not allowed on certain roads. The plant was shut down for a few weeks. In order to get the plant to be profitable, the company has decided to run the plant for just 4 days a week to cut costs. They expect to start running the plant at a 65,000 tonne per year rate starting Q3, lower than their 80,000 tonne per year estimate announced during the previous quarter. In their conference call, management indicated that they expect Scotia to break-even in Q3.

The company attributed the strong sales by VMI to the strong U$, and the growth in sales of the Okanagan Gold brand and the Okanagan Douglas Fir brand.

Management has maintained their sales estimate of 175,000 tonnes in 2015, despite their lower production forecast at Scotia. They believe the strong sales by VMI will offset this drop. We are maintaining our sales estimates of 165,000 tonnes in 2015, and 180,000 tonnes in 2016. **We slightly raised our revenue forecast, due to higher sales by VMI, from $34.20 million to $34.70 million for 2015, and from $38.52 million to $39.04 million for 2016.** VMI generates a higher average price than Scotia.

The following tables show the margins.

Margins	Q1-2014	Q1-2015	Rentech	Enviva
Gross	0.91%	3.80%	17.60%	16.00%
EBITDA	-18.62%	-8.98%	11.80%	11.10%
EBIT	-23.98%	-12.83%	3.40%	6.70%
EBT	-27.13%	-15.45%		
Net	-27.95%	-11.56%	-5.80%	2.60%

Expenses / Sales	Q1-2014	Q1-2015
Selling & Marketing	2.21%	2.40%
G & A	17.33%	10.38%
Total	**29.6%**	**19.9%**

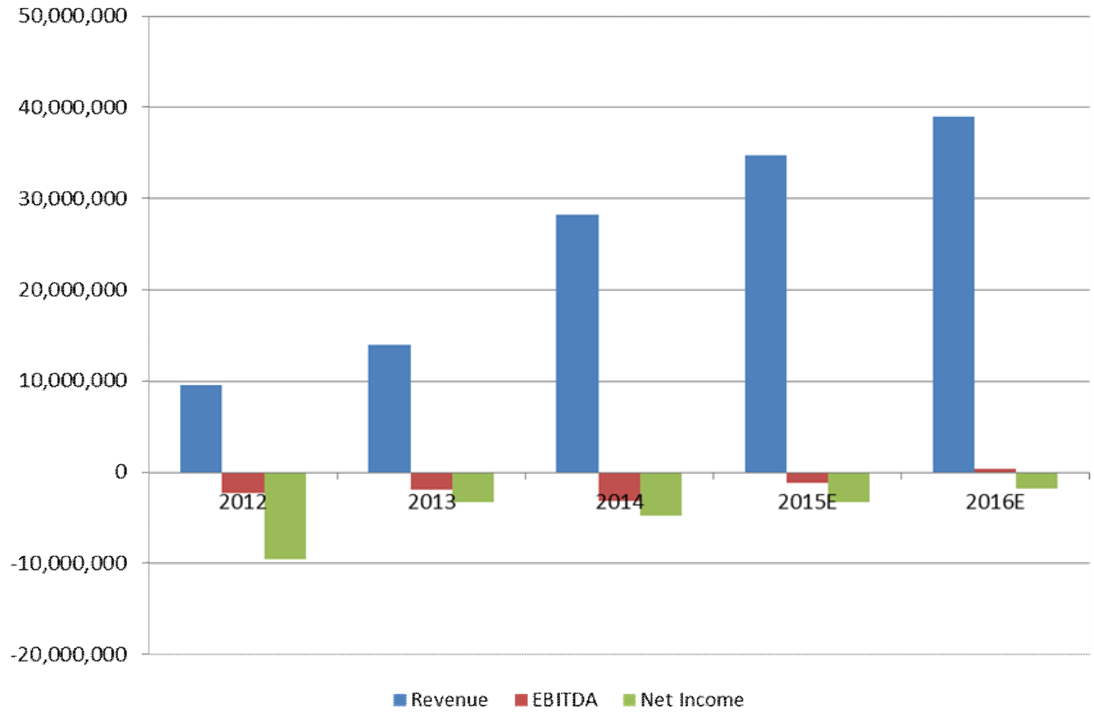
EBITDA margins continue to be negative as the Scotia plant has yet to reach profitability.

As Scotia is expected to break-even only in Q3, we have lowered our gross margin estimates for Scotia. General and Administrative ("G&A") expenses, excluding depreciation, dropped by 7% YOY to $0.91 million and were in line with our estimate.

Lowering Margin Estimates

EBITDA was -$0.79 million in Q1-2015, versus -$1.05 million in Q1-2014. The company reported a net loss of $1.01 million (EPS: -$0.07) in the quarter versus a net loss of $1.58 million (EPS: -$0.14) in Q1-2014. As we lowered Scotia's gross margin estimate, we **revised our net loss forecast for the year to $2.73 million (EPS: -$0.20), from our previous estimate of a net loss of $1.55 million (EPS: -$0.11).** Our forecast for 2016 is a net loss of $1.39 million (EPS: -$0.08) versus our previous estimate of $0.69 million (EPS: -$0.04). We expect EBITDA to turn positive in 2016.

The following chart shows our projections:



The following table shows a summary of the company's cash flows.

Summary of Cash Flows	**Q1-2014**	**Q1-2015**
Cash Flows from Operations	(1,960,986)	(2,213,225)
Cash Flows from Investing	(861,715)	(163,029)
Cash Flows from Financing	4,161,165	1,358,112
Net Change	1,338,464	(1,018,142)
Free Cash Flows (Equity)	**(2,822,701)**	**(2,376,254)**

The company reported negative $2.21 million in cash flow from operations, and CAPEX of $0.16 million in Q1-2015. Free Cash Flows ("FCF") were negative $2.38 million.

At the end of Q1-2015, the company had $1.04 million in cash. Working capital and the current ratio were $1.15 million, and 1.2x, respectively.

Liquidity Analysis	2010	2011	2013	2014	Q1-2015	Rentech	Enviva
Cash	$0	$598,696	$1,594,246	$2,058,334	$1,040,192		
Working Capital	-$3,925,131	-$2,250,304	$659,690	$852,328	$1,153,445		
Current Ratio	0.48	0.56	1.18	1.17	1.21	1.10	4.4
Debt / Capital	45.3%	53.0%	64.5%	71.7%	84.1%	71.2%	36.8%
LT Debt / Capital	3.9%	27.0%	62.9%	63.2%	75.4%	68.5%	36.0%
EBIT Interest Coverage Ratio	(12.8)	(5.4)	(5.5)	(6.1)	(4.9)	0.8	2.7
Profitability Analysis	**2010**	**2011**	**2013**	**2014**	**Q1-2015**		
Return on Assets	-14%	-27%	-28%	-33%	-26%	1.3%	4.0%
Return on Equity	-30%	-59%	-134%	-141%	-164%	-19.3%	3.9%
Return on Invested Capital	-12%	-23%	-33%	-41%	-31%	1.6%	4.2%
Activity Analysis	**2010**	**2011**	**2013**	**2014**	**Q1-2015**		
Days Accounts Receivable	26.65	32.47	26.61	17.31	19.25	19.7	16.7
Days Inventory	119.71	51.10	24.78	21.05	25.10	48.2	18.8
Days Accouts Payable	45.25	52.35	101.89	53.12	44.05	25.4	8.3
Cash Conversion Cycle	**101.10**	**31.22**	**(50.50)**	**(14.76)**	**0.30**	**42.50**	**27.20**

As shown in the table above, the company has an extremely low cash cycle versus its peers. The company received a working capital loan of $1.60 million (@ 12% p.a. / no repayment terms) in the quarter from Cornwall Investments for procuring raw material supply for Scotia. As mentioned in our previous report, Cornwall Investments holds 76% of the company's outstanding shares. VRD had long-term debt to capital of 75% at the end of Q1-2015, much higher than its peers. On May 13, 2015, the Royal Bank of Canada increased OPC's line of credit from $0.25 million to $1.00 million (@ prime + 3% p.a.), which is very encouraging. **We expect the company will have to pursue a $2 - $3 million equity financing next year.**

Stock options and warrants: At the end of Q1-2015, the company had 0.49 million options (weighted average exercise price of $1.34), and 0.20 million warrants (weighted average exercise price of $3.50) outstanding. None of the options/warrants are currently in the money.

Valuation / Rating

The average of our Discounted Cash Flow ("DCF") and comparables valuation dropped from $1.37 per share to $1.20 per share as we lowered our near-term EPS estimates. We maintain our BUY rating on VRD's shares.

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The wood pellet industry is highly competitive, and is operated by several players.
- Technological changes / advancements may result in an increase in demand for other sources of energy.
- If wood pellets experience a significant increase in price, customers may switch to other

sources of energy.

- The company may have to pursue equity financings for future acquisitions, which may dilute existing shareholders.
- Foreign exchange risks exist as most of OPC's sales are in US$. The company currently does not use any currency hedging strategies.
- Raw material supply and price risk.
- The company has entered into long-term purchase agreement with OPC's feedstock suppliers. VRD will have to find buyers for feedstock if they are unable to fulfill these purchase agreements.
- Transportation costs.
- Interest rate risk associated with debt.
- Demand for wood pellets for heating is subject to seasonal fluctuations. Unusually warm weather conditions may result in lower demand for heating.
- The liquidity of VRD's shares is not high as only 18% of the shares are floating. 82% of the outstanding shares are held by Cornwall Investments and management.

We assign a risk rating of 3 (Average).

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APPENDIX

STATEMENTS OF OPERATIONS (in C$)- YE Dec 31st	2011	2012	2013	2014	2015E	2016E
Sales	12,354,206	9,548,177	13,918,816	28,209,683	34,700,000	39,037,000
Cost of Sales	10,719,800	7,907,399	11,202,170	24,599,424	31,114,313	33,304,535
Gross Profit	**1,634,406**	**1,640,778**	**2,716,646**	**3,610,259**	**3,585,687**	**5,732,465**
Expenses						
Selling & Marketing	355,490	167,385	242,826	452,023	580,697	653,276
Stock based compensation			10,000	172,958	199,911	224,897
G & A	3,313,969	2,863,995	3,416,514	3,621,413	3,470,000	3,903,700
EBITDA	**-2,920,506**	**-2,334,093**	**-1,938,655**	**-3,100,744**	**-664,920**	**950,593**
Amortization	605,679	555,727	743,011	1,237,107	1,266,353	1,400,183
EBIT	**-3,526,185**	**-2,889,820**	**-2,681,666**	**-4,337,851**	**-1,931,273**	**-449,590**
Interest & Bank Charges	647,712	751,858	484,174	713,618	798,031	861,844
EBT	**-4,173,897**	**-3,641,678**	**-3,165,840**	**-5,051,469**	**-2,729,304**	**-1,311,434**
Exchange rate and Unusual items	-72,359	-5,898,370	-137,846	-123,536		
EBT	**-4,246,256**	**-9,540,048**	**-3,303,686**	**-5,175,005**	**-2,729,304**	**-1,311,434**
Non-controlling Interest				-475,329	-1,954	81,113
Income Taxes	-43,569				-	-
Net Earnings for the period	**-4,202,687**	**-9,540,048**	**-3,303,686**	**-4,699,676**	**-2,727,350**	**-1,392,547**
EPS	-0.12	-0.19	-0.34	-0.35	-0.20	-0.08

BALANCE SHEET (in C$)- YE Dec 31st	2011	2012	2013	2014	2015E	2016E
Assets						
Cash	598,696	413,570	1,594,246	2,058,334	879,646	13,865
Accounts receivable	1,190,370	753,208	1,275,959	1,400,077	1,810,447	1,805,897
Inventory	597,003	594,012	926,933	1,910,772	1,794,620	1,983,112
Related parties	190,686	54,000				
Prepaid expenses	247,972	225,761	546,917	379,263	388,745	398,463
Current Assets	**2,824,727**	**2,040,551**	**4,344,055**	**5,748,446**	**4,873,458**	**4,201,337**
Property and equipment	12,519,729	8,264,488	9,045,376	9,334,553	9,068,200	10,668,017
Total Assets	**15,344,456**	**10,305,039**	**13,389,431**	**15,082,999**	**13,941,658**	**14,869,355**
Liabilities & Shareholders'						
Accounts payables & accrued	1,399,033	2,924,127	3,329,868	3,830,403	4,528,295	4,473,545
Deferred income	71,470	157,058	196,595	123,422	173,500	195,185
Related parties		164,670	44,373			
Loans payable	3,604,528	5,619,353	113,529	942,293	7,371,588	1,014,764
Current Liabilities	**5,075,031**	**8,865,208**	**3,684,365**	**4,896,118**	**12,073,383**	**5,683,494**
Loans payable	3,747,726		6,198,921	7,038,017	1,246,850	6,732,086
Shareholder's Equity						
Share Capital	18,559,325	22,537,578	27,322,578	31,550,008	31,550,008	34,550,008
Contributed surplus	2,381,449	2,861,376	3,446,376	4,141,665	4,341,576	4,566,472
Non-controlling interest				-572,660	-572,660	-572,660
Deficit	-14,419,075	-23,959,123	-27,262,809	-31,970,149	-34,697,499	-36,090,046
Total Liabilities &	**15,344,456**	**10,305,039**	**13,389,431**	**15,082,999**	**13,941,658**	**14,869,355**

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STATEMENTS OF CASH FLOWS (in C$)- YE Jan 31st	2011	2012	2013	2014	2015E	2016E
Operating Activities						
Net earnings for the period	-4,202,687	-9,540,048	-3,303,686	-5,175,005	-2,727,350	-1,392,547
Items not involving cash						
Depreciation	605,691	555,727	743,011	1,237,337	1,266,353	1,400,183
Bad debt expense	154,617	18,971	76,861	-4,392		
Stock based compensstion	49,163		10,000	172,958	199,911	224,897
Deferred income,accretion exp, int accrual, and others	617,071	6,131,414	514,845	347,854		
	-2,776,145	**-2,833,936**	**-1,958,969**	**-3,421,248**	**-1,261,087**	**232,533**
Changes in working capital	1,016,403	2,235,845	-956,057	-187,749	444,270	-226,726
Cash from (used in) operations	**-1,759,742**	**-598,091**	**-2,915,026**	**-3,608,997**	**-816,816**	**5,807**
Financing activities						
Debt	874,494	1,971,443	127,338	546,902	638,128	-871,588
Lease						
Equity	2,412,419	500,000	5,000,000	4,458,000		3,000,000
Cash provided by financing activities	**3,286,913**	**2,471,443**	**5,127,338**	**5,004,902**	**638,128**	**2,128,412**
Investing activities						
Purchase of capital assets	-928,475	-2,058,478	-1,031,636	-931,817	-1,000,000	-3,000,000
Cash used in investing activities	**-928,475**	**-2,058,478**	**-1,031,636**	**-931,817**	**-1,000,000**	**-3,000,000**
Increase (decrease) in cash	**598,696**	**-185,126**	**1,180,676**	**464,088**	**-1,178,688**	**-865,781**
Cash beginning of period	-	598,696	413,570	1,594,246	2,058,334	879,646
Cash end of period	**598,696**	**413,570**	**1,594,246**	**2,058,334**	**879,646**	**13,865**

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:
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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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