

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

August 22, 2018

Abattis Bioceuticals Corp. (CSE: ATT / OTCQB: ATTBF) – Initiating Coverage; Integrated Cannabis Company Focused on Downstream Cannabis Services

Sector/Industry: Cannabis

www.abattis.com

Market Data (as of August 22, 2018)

| | |
|---------------|---------------|
| Current Price | \$0.18 |
| Fair Value | \$0.30 |
| Rating* | BUY |
| Risk* | 5 |
| 52 Week Range | \$0.06-\$0.94 |
| Shares O/S | 419,738,192 |
| Market Cap | \$75.55 M |
| Current Yield | N/A |
| P/E (forward) | N/A |
| P/B | 1.10 |
| YoY Return | 28.57% |
| YoY TSXV | -12.38% |

*see back of report for rating and risk definitions



Investment Highlights

- Abattis Bioceuticals Corp. (“Abattis”) is an integrated cannabis company with a portfolio of assets focused on downstream services in the legal cannabis space.
- Abattis owns 100% of Gabriola Green Farms, a prospective cannabis production facility located in British Columbia, Canada. Construction has commenced on the 26,000 square-foot facility.
- The company has a 10% equity investment in XLABS, a cannabis-focused laboratory project that could be a potential 320,000 square-foot facility if fully built-out and amongst the largest structures of its kind.
- On January 25, 2018, Abattis announced a \$5 million investment for a 49% ownership stake in CannaNUMUS Blockchain Inc.
- In January 2018, Abattis acquired Green Tree Therapeutics Corp., which owns and distributes a line of vaporizers.
- Abattis also operates Vergence Naturals, a sales and marketing company tailored to natural health products.
- **We are initiating coverage on Abattis with a BUY rating and a fair value estimate of \$0.30 per share.**

Risks

- Regulatory uncertainty regarding the cannabis industry.
- Risks associated with minority investments in companies that are not publicly traded.
- Potential exposure to the volatile crypto-currency space via CannaNUMUS.
- Contamination and other risks associated with agricultural production.
- Liquidity risk.
- Access to capital and share dilution.

Key Financial Data (FYE - September 30)

| (C\$) | 2017 | 2018E | 2019E |
|-----------------|---------------|----------------|---------------|
| Cash | \$ 525,569 | \$ 7,075,264 | \$ 9,722,140 |
| Working Capital | \$ 239,861 | \$ 16,972,032 | \$ 19,209,269 |
| Debt | \$ 18,871 | \$ 18,871 | \$ 18,871 |
| Total Assets | \$ 1,210,858 | \$ 73,871,073 | \$ 76,153,166 |
| Revenue | \$ - | \$ 136,506 | \$ 4,423,364 |
| Net Income | \$ -7,926,116 | \$ -24,245,208 | \$ -3,927,397 |
| EPS | \$ 0.05 | \$ -0.06 | \$ -0.01 |

Overview

Abattis Bioceuticals Corp. is an integrated cannabis company that seeks to provide essential downstream cannabis solutions. Based out of Vancouver, Canada, the company currently maintains a portfolio of investments and subsidiaries including:

- **Gabriola Green Farms Inc. (“Gabriola Green Farms”)**: An Access to Cannabis for Medical Purposes Regulations (“ACMPR”) applicant located on Gabriola Island, a gulf island located off the coast of British Columbia. Gabriola has begun construction of a 26,000 square-foot facility on 18 acres of land over two phases.
- **CannaNUMUS Blockchain Inc. (“CannaNUMUS”)**: A company currently developing a cryptocurrency that will be backed by a suite of portfolio cannabis companies. Abattis currently maintains a 49% interest in CannaNUMUS and anticipates an Initial Coin Offering (“ICO”) in the near-term.
- **Green Tree Therapeutics Corp. (“Green Tree”)**: A subsidiary of the company focused on the vaporizer/ E-Cigarette sector, Green Tree was formed in 2017, and is a revenue generating segment of the company.
- **XLABS Therapeutics Inc. (“XLABS”)**: Planned to be one of the largest ancillary cannabis services facility of its kind, XLABS is a prospective cannabis laboratory to be built in Ontario. The initial facility is planned to be 10,000 square-feet, with plans to expand the facility to 320,000 square-feet over time.
- **Vergence Naturals (“Vergence”)**: A sales and marketing company offering natural health products and nutraceuticals and offering Abattis a distribution channel for future cannabis infused formulations.

The following section presents details of each of the above.

Gabriola Green Farms

On February 27, 2018, the company announced that it had entered into a definitive agreement to acquire Gabriola Green Farms, an ACMPR Licensed Producer (“LP”) applicant located on Gabriola island. On March 2, 2018 the company completed the acquisition of a 90% ownership interest in Gabriola Green Farms for total consideration of \$2.5 million in cash and the issuance of 61.3 million common shares at a deemed price of \$0.42. According to the definitive agreement announced on February 27, 2018, Abattis is obligated to provide the following milestone payments (to be paid in shares) to the founders of Gabriola Green Farms:

- \$5 million upon receipt of an ACMPR Cultivation License.
- \$5 million upon receipt of an ACMPR Sales License.

In connection to the transaction, Abattis also acquired the right of first refusal on the remaining 10% equity interest, which was acquired as part of a strategic investment by CannaNUMUS (in which Abattis holds a 49% equity interest). **On April 30, 2018, the company completed a share purchase agreement with CannaNUMUS to purchase the remaining 10% interest, for \$2.5 million.** Gabriola is now a 100% owned subsidiary of Abattis.

According to Abattis, Gabriola Green Farms intends to roll-out the construction of a cannabis production facility totaling 26,000 square-feet. **Based on our estimate of the**

industry average grams-per-square-foot of 120, we expect dried cannabis production capacity of 3,120 kg per annum.

The company disclosed on May 3, 2018, that the cost of retrofitting the facility amounted to \$1.5 million. The project is still in its early stages, and we expect that the build-out of the facility will occur in 2019, and estimate that the initial 6,000 square-foot structure should begin production in the second half of FY2019.

CannaNUMUS

On February 1, 2018, the company announced that it had entered into a Definitive Agreement to acquire 49% of CannaNUMUS Blockchain Inc., a company developing a crypto-currency tailored to the cannabis space. The investment was completed on February 8, 2018, with the company disclosing the book value of their investment at \$12 million. It is unclear who owns the remaining 51% of CannaNUMUS. The envisioned crypto-currency being developed by CannaNUMUS will feature tokens backed by an underlying portfolio of cannabis companies. At current, CannaNUMUS is facilitating the roll-out of its tokens by making direct investments into cannabis companies, with the condition that investees commit a fixed undisclosed portion of revenues to “buy-and-burn” tokens. This is envisioned to mimic a share buyback mechanism.

At current, CannaNUMUS maintains only one investment in Active Health Products Ltd. (“Active Health”). Active Health is headed by Jim Money, who developed Broken Coast Cannabis Inc., which was recently sold to Aphria Inc. (TSX: APH) for \$230 million. The deal calls for Active Health to use a fixed, undisclosed amount of its quarterly revenues to buy-and-burn CannaNUMUS tokens. CannaNUMUS had also previously invested \$2.5 million into Gabriola for 10% of equity. However, their ownership was bought out by Abattis on April 18, 2018, for the same investment value at which they had purchased the ownership share, as mentioned in an above section.

Based on our understanding of how CannaNUMUS functions, we believe that the entity largely resembles a cannabis investment fund, though incorporating digital tokens instead of shares. Furthermore, given that the crypto-currency being developed is expected to be backed by a portfolio of publicly-traded cannabis companies, it is conceivable that in the long-term, token values should reflect the net asset value of the underlying investments.

Furthermore, though the crypto-currency space has lost significant market value since coming down from highs in late 2017, companies that incorporate blockchain technology, or are related to the crypto-currency space, still trade at large multiples. The following table outlines publicly-traded blockchain companies based in Canada:

| Company | Ticker | Market Cap | EV | EV/ R | P/B |
|--------------------------------------|------------|----------------|----------------|-------|-------------|
| Hive Blockchain Technologies Ltd. | TSXV: HIVE | \$ 215,980,000 | \$ 196,757,000 | 12 | 1.08 |
| BTL Group Ltd. | TSXV: BTL | \$ 91,895,000 | \$ 77,618,000 | | 6.58 |
| Global Blockchain Technologies Corp. | TSXV: BLOC | \$ 68,017,000 | \$ 52,787,000 | | 0.47 |
| Glance Technologies Inc. | CSE: GET | \$ 59,399,000 | \$ 48,732,000 | 21 | 4.53 |
| Imagination Park Entertainment Inc. | CSE: IP | \$ 11,457,000 | \$ 13,105,000 | 30 | 2.70 |
| | | | | | 3.07 |

Source: FRC, Capital IQ

XLABS

On June 28, 2018, the company announced that it had entered into a Definitive Agreement with XLABS to launch a new cannabis laboratory in Belleville, Ontario. The investment was completed on July 24, 2018, with the company investing \$2.5 million for a 10% stake in XLABS. The facility is intended to eventually be one of the largest of its kind in Canada, with the facility to be erected over an existing 320,000 square-foot building. The company intends to build-out an initial 10,000 square-foot facility, with the rest of the building to be converted over time. The company will look to fund future expansions via joint-ventures or organic growth.

According to the company, an independent consultant has verified that the Belleville facility is suitable for operations involving medical cannabis, as per guidance under Health Canada's Narcotic Control Regulations. This is important to ensure that the facility is in compliance with Health Canada regulations. According to Abattis, the company intends to apply for a Licensed Dealer ("LD") license for the XLABS facility, though a timeline is not available at this time. The facility is intended to provide the following services:

- Cannabinoid extraction.
- Storage of cannabis flowers and oils.
- Cannabis testing and analysis.
- Cannabinoid product manufacturing.
- Research and development.
- Custom formulation for cannabis products.

There are no other majority investors in the XLABS project. Given an average price-to-square-foot of \$1,762 as per our comparable transactions table below, the entire XLABS facility could be valued at \$563.95 million on a comparable transaction basis, given 320,000 potential square footage. At this valuation, Abattis' 10% stake would be valued at \$56.39 million. If the facility is not built past its initial 10,000 square-foot structure, the implied valuation for XLABS would be \$17.62 million, with Abattis' stake valued at \$1.76 million. **Note that there is significant risk associated with this project.** Furthermore, the CAPEX costs to buildout the facility are unclear.

The following table outlines precedent transactions involving LD or cannabis testing/extraction labs:

Cannabis Lab Precedent Transactions

| Target | Acquirer | Transaction Date | Transaction Value | Acquired Interest | Square-Footage | Post-Money Valuation | P/SQ-FT |
|-----------------|-----------------|-------------------|-------------------|-------------------|----------------|----------------------|-----------------|
| Anandia Labs | CannaRoyalty | January 9, 2017 | \$ 4,000,000 | 20% | 5,400 | \$ 20,000,000 | \$ 3,704 |
| ARA-Avanti | Nuuvvera | August 1, 2017 | \$ 13,260,000 | 51% | 22,000 | \$ 26,000,000 | \$ 1,182 |
| C3 Labs LLC | Evio Labs | December 11, 2017 | \$ 750,000 | 60% | 8,000 | \$ 1,250,000 | \$ 156 |
| Northern Vine | Emerald Health | August 14, 2018 | \$ 6,000,000 | 47% | 3,000 | \$ 12,765,957 | \$ 4,255 |
| Northern Vine | Emerald Health | November 21, 2017 | \$ 2,500,000 | 53% | 3,000 | \$ 4,716,981 | \$ 1,572 |
| Supra THC | Valens GroWorks | April 16, 2017 | \$ 3,750,000 | 100% | | \$ 3,750,000 | |
| Valens Agritech | Valens GroWorks | November 8, 2016 | \$ 18,000,000 | 100% | 17,000 | \$ 18,000,000 | \$ 1,059 |
| Zenalytics | Invictus MD | November 18, 2016 | \$ 300,000 | 49% | 1,500 | \$ 612,245 | \$ 408 |
| Average | | | | | | | \$ 1,762 |

Source: FRC, Public Disclosures

The need for dedicated cannabis testing services has become clear. Earlier in 2017, licensed producers OrganiGram Holdings Inc. (TSXV: OGI) and Mettrum (now part of Canopy

*Green Tree
Therapeutics*

Growth Corp./ TSX: WEED) had issued voluntary product recalls due to the presence of unauthorized pesticides in their product. In response to this event, Health Canada introduced random product testing in March 2017. As of May 2017, Health Canada has made the testing of cannabis products for unauthorized pesticides mandatory. Despite this, privately-held company Broken Coast Cannabis announced a product recall on August 24, 2017, after a random sampling carried out by Health Canada revealed trace amounts of the prohibited pesticide Myclobutanil. This emphasizes the need for improved lab testing services in the cannabis space.

On January 11, 2018, the company announced that it had entered into a definitive agreement to acquire Green Tree. Green Tree is a Canadian company that owns a brand of vaporizers currently sold in over 130 stores and is developing a line of alternative cannabis products such as capsules, oils and lotions. Upon closing of the transaction, Abattis granted Green Tree 15 million shares, as well as 15 million shares to Winston Resources Inc. (CSE: WRW), which previously held the right to acquire Green Tree. The transaction closed on January 25, 2018. **Abattis recorded the book value of their investment into Green Tree at \$22.46 million in Q2-FY2018, and a business acquisition report filed on SEDAR revealed that Green Tree had sales of \$0.26 million in 2017. Note that whilst the book value relative to 2017 sales is quite high, we believe it reflects the early stage nature of Green Tree.**

The acquisition of Green Tree provides the company access to the vaporizer and E-Cigarettes market, a young and high-growth industry that exhibits potential linkages to the cannabis space. According to BIS Research, the vaporizer and E-Cigarette market is poised to grow at a CAGR of 22.36% between 2015 and 2025, to reach a market value of \$50 billion by 2025. Apart from being a high growth space, the company believes that special formulations for E-juices incorporating cannabis could become a large segment of the vaporizer market.

Abattis' New Line of KB-1 Vaporizers



Source: Company

Vergence Naturals

The table below outlines vaporizer/ E-Cigarette-focused companies that are publicly-traded. Note that mCig Inc. (OTC: MCIG) is a cannabis vaporizer focused company.

| Company | Market Cap (US\$) | EV (US\$) | EV/ R | EV/ EBITDA | P/S | P/E | Gross Margin | Net Margin | Revenue 3-year CAGR |
|---------------------------|-------------------|----------------|-------|------------|-------|--------|--------------|------------|---------------------|
| mCIG Inc. | \$ 125,342,000 | \$ 125,079,000 | 14.64 | 86.80 | 14.67 | 106.13 | 40.33% | 13.82% | 129.90% |
| Turning Point Brands Inc. | \$ 599,800,000 | \$ 794,900,000 | 2.71 | 15.11 | 2.05 | 28.03 | 44.00% | 7.30% | 13.50% |
| VPR Brands LP | \$ 5,574,000 | \$ 6,033,000 | 1.58 | | 1.46 | - 3.79 | 36.70% | -38.40% | 1390.10% |

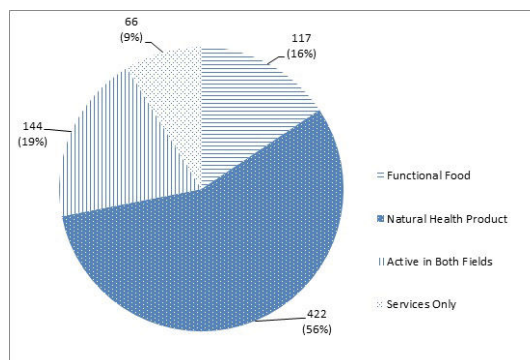
Source: FRC, Public Disclosures

Launched in 2016, Vergence Naturals is an integrated natural products subsidiary comprised of four divisions separated by product category:

- Natural Health Products: natural foods and personal care items.
- Beverages: water, juices, natural and functional drinks.
- Pharma & Nutraceuticals: natural health products with health benefits.
- Spa & Beauty: natural beauty products without harmful additives.

Vergence expects to exhibit a revenue model similar to typical distributor businesses. Vergence intends to purchase the products at wholesale prices from third-party partner brands, hold the products at an external contracted warehouse facility, and sell these products in bulk or retail amounts to end users. End users may include retail stores or individual customers. According to discussions with management, Vergence expects 70% of its sales to be bulk purchases and the remaining as retail purchases by individual customers. On the note of the intended holding facility, management have indicated that they have found a warehouse in Delta, British Columbia, which they believe they will contract. Further details have not been disclosed.

According to Health Canada, the functioning foods and natural health products market generated \$11 billion in revenues in 2011, with more than 750 companies offering products and services in the space. According to the percentage break down in the below chart, the natural health products segment alone was valued at \$6.2 billion in 2011. Whilst this data is dated, we believe that it serves to illustrate the market's potential.



Source: Health Canada

Furthermore, a 2010 study by Ipsos Group S.A. (EPA: IPS) reported that 73% of Canadians consume some form of natural health product, whether it is vitamins, herbal products, or traditional medicines. We believe that the natural health products sector, and cannabis

Industry

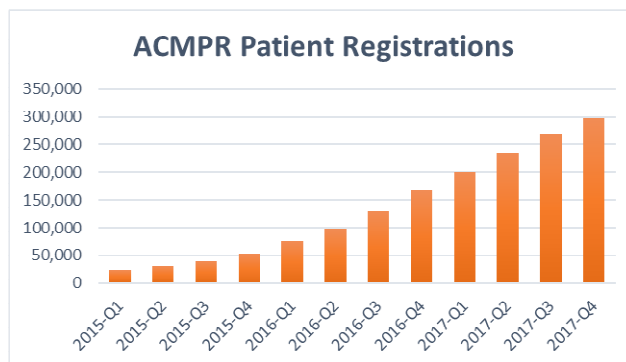
infused products sector, could potentially be synergistic. This is based on our belief that the use of CBD and THC for therapeutic purposes will continue to grow as consumer preferences change. As consumers begin to treat cannabis as a product that is similar to nutraceuticals, bioceuticals and other health supplements, we expect that consumer products that incorporate cannabis (especially CBD, which is non-psychoactive), such as CBD topical creams, will attract demand from the natural health product sector.

In a historic milestone on June 19, 2018, the Canadian government moved to legalize cannabis for recreational use with the passing of Bill C-45, with an expected launch date of October 17, 2018. With uncertainty regarding the possibility of cannabis legalization now put to rest, investors are now concentrated on the structure of how legal recreational cannabis will be distributed and sold, with each province having proposed different retail channels. The below snapshot provides an overview of the recreational cannabis market by province:

| BRITISH COLUMBIA | SASKATCHEWAN | ONTARIO | QUEBEC | NEWFOUNDLAND & LABRADOR |
|---|--|---|--|--|
| Licensed producers: 23 | Licensed producers: 4 | Licensed producers: 59 | Licensed producers: 8 | Licensed producers: 0 |
| Expected number of retailers in Year One: N/A | Expected number of retailers in Year One: 51 | Expected number of retailers in Year One: 40 | Expected number of retailers in Year One: 20 | Expected number of retailers in Year One: 24 |
| Estimated number of consumers: 725,000 | Estimated number of consumers: 125,300 | Estimated number of consumers: 1.7 million | Estimated number of consumers: 1.1 million | Estimated number of consumers: 70,300 |
| ALBERTA | MANITOBA | NEW BRUNSWICK | PRINCE EDWARD ISLAND | NOVA SCOTIA |
| Licensed producers: 6 | Licensed producers: 2 | Licensed producers: 3 | Licensed producers: 1 | Licensed producers: 3 |
| Expected number of retailers in Year One: 250 | Expected number of retailers in Year One: N/A | Expected number of retailers in Year One: 20 | Expected number of retailers in Year One: 4 | Expected number of retailers in Year One: 12 |
| Estimated number of consumers: 526,000 | Estimated number of consumers: 142,400 | Estimated number of consumers: 101,000 | Estimated number of consumers: 19,400 | Estimated number of consumers: 125,000 |
| YUKON | NORTHWEST TERRITORIES | NUNAVUT | | |
| Licensed producers: 0 | Licensed producers: 0 | Licensed producers: 0 | | |
| Expected number of retailers in Year One: 1 | Expected number of retailers in Year One: 7 (in liquor stores) | Expected number of retailers in Year One: Online only | | |
| Estimated number of consumers: 4,400 | Estimated number of consumers: 5,100 | Estimated number of consumers: 4,400 | | |

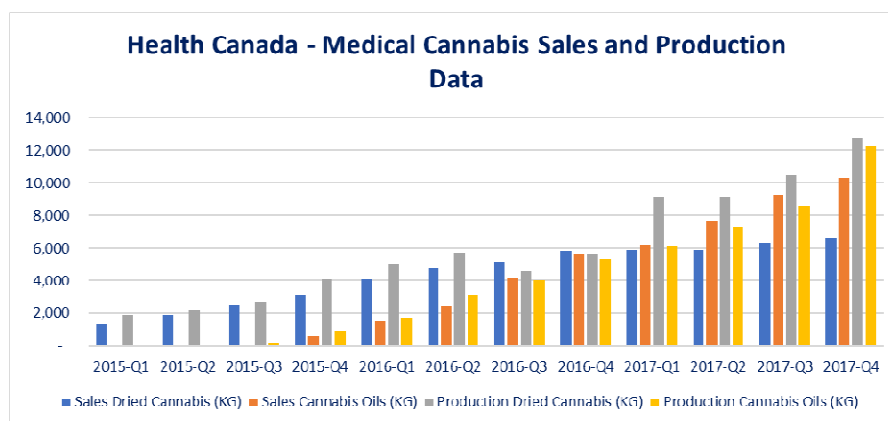
Source: Marijuana Business Daily

The impact of legalization may be eating in to the growth of the Canadian medical cannabis market, as the ACMPR program shows signs of maturation. At the end of Q4 of FY2017-2018 (ended March 2018), Health Canada reported there were 296,702 patients registered under the ACMPR program, or less than one per cent of the Canadian population. This reflects growth of 10.09% over the previous quarter, the slowest quarterly growth since the ACMPR program was initiated. Patient data is presented in the chart below:



Source: Health Canada, FRC

Data regarding sales and production is given below:



Source: Health Canada, FRC

We believe the slowdown in the number of ACMPR patient registrations was due in large part to the maturity of the ACMPR program and the onset of legalization. With recreational cannabis set to become legal for consumption nationwide, prospective ACMPR users may be holding off on registration until recreational use becomes legal. The perception that there is little difference between recreational and medically referred cannabis may lead users to wait out the next few months until they can purchase cannabis more freely. This is especially true since medical cannabis tends to command a premium relative to recreational cannabis.

Management Overview

The company's board of directors has six members, three of which are independent. We believe that a company's board of directors should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. **We estimate that management and directors hold 30.26 million shares, or 7.21% of outstanding shares.** The table below outlines management's ownership position.

Management's Share Ownership

| Management | Shares | % of Total |
|--|-------------------|--------------|
| Robert Abenante- CEO & Director | 7,990,697 | 1.90% |
| Rene David- Director | 20,158,264 | 4.80% |
| Cameron Paddock- Director | | |
| Jim Irving- Independent Director | 1,579,409 | 0.38% |
| Peter Gordon- Independent Director | 535,889 | 0.13% |
| Wolfgang Richer - Independent Director | | |
| Total | 30,264,259 | 7.21% |

Source: FRC, Management

Brief biographies of the senior management and board members, as provided by the company, follow:

Robert Abenante – CEO, President, Director

Mr. Abenante is a seasoned executive with extensive public company experience within the energy, mining and life sciences sectors. Mr. Abenante is a Chartered Professional Accountant (CPA, CA) who also holds a Master's in Business and Accounting. As he has done with other companies prior to joining Abattis, Rob has led the turnaround effort in Abattis and continues to lead the Company in both organic growth and mergers and acquisitions.

Kent McParland – CFO, COO

Kent McParland is a Chartered Professional Accountant (CPA, CA) and joins Abattis following fifteen years in public practice with Grant Thornton, MNP and Deloitte. He has experience working in multiple industries with expertise in project management and change management. Mr. McParland has also worked in the US and Caribbean throughout his career.

Rene David – Director

Mr. David has over twenty years of experience in real estate development, finance and strategic planning. Rene brings considerable operational insight and cannabis industry perspective to Abattis and has successfully secured important I.P. to position the company as an industry leader in its niche market.

Cameron Paddock – Director

Mr. Paddock currently manages a family office while serving as a director of a number of public and private companies involved in the cannabis, technology, and mining sectors. Mr Paddock has extensive experience with business development, corporate governance and mergers and acquisitions.

James Irving – Independent Director

Mr. Irving is a sales professional with over 25 years of experience in the corporate and consulting world, specializing in the alcohol beverage industry and packaged goods. Mr. Irving worked with the Mark Anthony Group for over 10 years and will lead the sales efforts with Abattis.

Peter Gordon – Independent Director

Mr. Gordon owns several licensed pharmacies, and has assisted companies in navigating through licensing, processes, urban development and resource & commodity rights applications at all levels of Government, from municipal to federal.

Wolfgang Richer – Independent Director

Mr. Wolfgang Richer brings many years of experience to the Board of Abattis as a result of his extensive background in senior leadership positions of successful organizations. Mr. Richer draws on relevant experience within the cannabis industry, having previously served as director of Northern Vine Inc.

Financials

The following table outlines Abattis' operating performance for Q2-2018:

| STATEMENTS OF OPERATIONS | | | | |
|--|--------------------|---------------------|--------------------|---------------------|
| (in CAD\$) - YE SEPT 30 | Q2-2017 | Q2-2018 | 2017 (6M) | 2018 (6M) |
| Revenue | | 5665 | | 5665 |
| COGS | | 1894 | | 1894 |
| Gross Profit | - | 3,771 | - | 3,771 |
| EXPENSES | | | | |
| SG&A Expense | 1,454,844 | 10,864,120 | 1,926,248 | 16,642,758 |
| Share-based Compensation | | 70,343 | 540,017 | 472,711 |
| Research & Development | 13,741 | | 20,041 | 25,000 |
| EBITDA | (1,468,585) | (10,930,692) | (2,486,306) | (17,136,698) |
| Depreciation | 6,528 | 7,484 | 14,160 | 14,968 |
| Amortization | 23,249 | 3,250 | 35,278 | 3,250 |
| EBIT | (1,498,362) | (10,941,426) | (2,535,744) | (17,154,916) |
| Financing Costs | 2532 | | 2532 | 737 |
| EBT | (1,500,894) | (10,941,426) | (2,538,276) | (17,155,653) |
| Non-Recurring Income/ Expenses | -43,074 | 716,991 | -75,574 | -279,950 |
| Taxes | | | | |
| Net Profit (Loss) | (1,457,820) | (11,658,417) | (2,462,702) | (16,875,703) |
| FOREX Translation | - | 2,095 | - | 2,095 |
| Net comprehensive Profit (Loss) | (1,459,915) | (11,658,417) | (2,464,797) | (16,875,703) |
| Shares outstanding | 133,340,282 | 298,272,141 | 126,891,806 | 241,085,276 |
| EPS | \$ -0.01 | \$ -0.04 | \$ -0.02 | \$ -0.07 |

Source: FRC

The small revenue number can be attributed to initial sales of Vergence, according to the company.

Investors should also note that the large SG&A expense for the first half of the company's FY2018 can be attributed to management and consulting fees, which totaled \$14.59 million. Of the \$14.59 million, \$6.52 million was attributable to the fair market value of 17.2 million common shares that were issued to an undisclosed director of the company (estimated value per share of \$0.38). Whilst it is uncertain what percentage of the management/ consulting fees were paid in stock, the company recorded \$12.33 million in shares issued to settle fees and debt during the first six months of FY2018.

Our discussions with management imply that the significant management fees were due to milestone-stone related payments to consultants, with milestones based on market capitalization, deal activity and the raising of funds. The fees were paid as the milestones were achieved and gave the consultants large incentives to reach such milestones. We note that at its 52-week high, the company reached a market cap in the hundreds of millions so at the time, it appears like the payments did incentivize those involved to create value.

Regarding the substantial bonus paid out to the undisclosed director, Abattis has stated that the bonus was paid to three separate individuals, though these individuals were not disclosed. We expect that these expenses are non-recurring and are unusually high to reflect the company's growth stage. **The current level of operating expenses is unsustainable without the generation of significant revenues, and we expect the company's operating expenses to decline moving forward.**

At the end of Q2-2018, the company had \$6.67 million in cash. Working capital and the current ratio were \$17.31 million, and 5.40x, respectively.

| (in C\$) - YE SEPT 30 | | | | |
|-------------------------------|---------|-----------|------------|------------|
| Liquidity & Capital Structure | 2016 | 2017 | Q1-2018 | Q2-2018 |
| Cash | 38,485 | 525,569 | 8,066,186 | 6,669,889 |
| Working Capital | 936,205 | 239,861 | 10,423,082 | 17,305,212 |
| Current Ratio | 0.09 | 1.55 | 21.42 | 5.40 |
| LT Debt | 30,927 | - | - | - |
| Total Debt | 49,798 | 18,871 | 18,871 | 832,624 |
| LT Debt / Capital | 0.04 | - | - | - |
| Total Debt / Capital | 0.07 | 0.01 | 0.00 | 0.01 |
| Total Invested Capital | 682,269 | 1,018,014 | 3,127,350 | 63,148,886 |

Source: FRC

Note that the company sold a stake in a former subsidiary subsequent to the quarter for total consideration of \$2 million in cash and \$4 million in shares of the purchaser.

The following table summarizes the companies cash flows at the end of Q2-2018:

| Summary of Cash Flows (\$, mm) | 2016 | 2017 | Q1-2018 | 2017 (6M) | 2018 (6M) |
|--------------------------------|---------|---------|---------|-----------|-----------|
| Operating | -\$0.73 | -\$1.22 | -\$2.86 | -\$0.61 | -\$3.23 |
| Investing | \$0.04 | -\$0.43 | -\$0.14 | -\$0.09 | -\$15.71 |
| Financing | \$0.57 | \$2.14 | \$10.54 | \$1.13 | \$25.08 |
| Effects of Exchange Rate | \$0.00 | \$0.00 | \$0.00 | \$0.01 | \$0.00 |
| Net | -\$0.12 | \$0.49 | \$7.54 | \$0.45 | \$6.14 |
| Free Cash Flows to Firm (FCF) | -\$0.69 | -\$1.65 | -\$3.00 | -\$0.70 | -\$18.94 |

Source: FRC

Stock options and warrants: we estimate that the company has 6.27 million stock options (weighted average exercise price of \$0.24 per share), and 47.84 million warrants (weighted average exercise price of \$0.39 per share) outstanding. None of the options, and 1.02 million warrants, are currently in-the-money. The company has the potential to raise up to \$0.07 million if all the in-the-money options and warrants are exercised.

Share Buyback: On August 7, 2018, the company announced that it intended to purchase up to 20.99 million of its common shares, representing 5% of current shares outstanding.

Valuation

In order to value Abattis shares, we utilize a sum-of-parts valuation model that values the separate parts of Abattis' business in order to come to a final, consolidated fair value per share estimate.

Gabriola Revenue Forecasts:

Below are revenue projections for Gabriola, based on estimated production:

| Gabriola Forecasts | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E |
|---------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Facility Square-Footage | 26,000 | 26,000 | 26,000 | 26,000 | 26,000 | 26,000 |
| Cannabis Dried Flower Production (KG) | 1,560 | 3,120 | 3,120 | 3,120 | 3,120 | 3,120 |
| Cannabis Dried Flower Sales (KG) | 780 | 3,120 | 3,120 | 3,120 | 3,120 | 3,120 |
| Dried Flower Price | \$ 5,000 | \$ 5,000 | \$ 5,000 | \$ 5,000 | \$ 5,000 | \$ 5,000 |
| Dried Flower Production Cost | \$ 2,500 | \$ 2,500 | \$ 2,500 | \$ 2,500 | \$ 2,500 | \$ 2,500 |
| Cannabis Revenue | \$ 3,900,000 | \$ 15,600,000 | \$ 15,600,000 | \$ 15,600,000 | \$ 15,600,000 | \$ 15,600,000 |
| Cannabis COGS | \$ 1,950,000 | \$ 7,800,000 | \$ 7,800,000 | \$ 7,800,000 | \$ 7,800,000 | \$ 7,800,000 |
| Gross Profit | \$ 1,950,000 | \$ 7,800,000 | \$ 7,800,000 | \$ 7,800,000 | \$ 7,800,000 | \$ 7,800,000 |

Source: FRC

Our assumptions are outlined below:

- Production begins during the second half of FY2019 at 780 kg, based on our estimation half-year production of 1,560 kg. We believe that the delay in production captures the company's need to receive associated licenses and complete the facility's initial buildout.
- Production expands to 3,120 kg in FY2020, based on the 120 grams-per-square-foot average industry production estimate, and having a full fiscal year worth of production.
- Wholesale price of \$5,000, reflecting expected industry averages.
- CAPEX of \$1.5 million for the full build-out, to be incurred during FY2018. We estimate the average CAPEX-per-square-foot for cannabis companies in British Columbia is approximately \$200-per-square-foot, putting Abattis' CAPEX for Gabriola significantly below the average. We believe the lower CAPEX may be due to the build-out being largely a retrofit of existing structures.

Green Tree Revenue Forecasts

According to the company's public disclosures, Green Tree is a revenue generating company, reporting sales of \$261,682, and a gross margin of 54.38% for 2017. The gross margin of our select list of comparables is 40.34%.

| Company | Market Cap (US\$) | EV (US\$) | Gross Margin | EBITDA Margin | EBIT Margin | Net Margin | Revenue 3-year CAGR |
|---------------------------|-------------------|----------------|--------------|---------------|-------------|------------|---------------------|
| mCIG Inc. | \$ 125,342,000 | \$ 125,079,000 | 40.33% | 16.87% | 14.45% | 13.82% | 129.90% |
| Turning Point Brands Inc. | \$ 599,800,000 | \$ 794,900,000 | 44.00% | 18.00% | 17.10% | 7.30% | 13.50% |
| VPR Brands LP | \$ 5,574,000 | \$ 6,033,000 | 36.70% | -14.40% | -14.44% | -38.40% | 1390.10% |
| Average | | | 40.34% | 6.82% | 5.70% | -5.76% | 511.17% |

Source: FRC, Public Disclosures

Our revenue forecasts for the company are provided below:

| Green Tree | 2H-2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E |
|--------------|------------|------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | \$ 130,841 | \$ 523,364 | \$ 1,046,728 | \$ 2,093,456 | \$ 4,186,912 | \$ 8,373,824 | \$ 16,747,648 |
| COGS | \$ 62,804 | \$ 261,682 | \$ 544,299 | \$ 1,130,466 | \$ 2,344,671 | \$ 4,856,818 | \$ 10,048,589 |
| Gross Profit | \$ 68,037 | \$ 261,682 | \$ 502,429 | \$ 962,990 | \$ 1,842,241 | \$ 3,517,006 | \$ 6,699,059 |

Source: FRC

Our assumptions for the revenue forecasts for Green Tree include:

- Revenue growth of 100% through to 2024. We believe the revenue growth is justifiable given the average 3-year revenue CAGR exhibited by the above comparables of 511.17%, and the fact that Green Tree is an early stage company.
- Gross margins decrease over time to reach 40% by 2024, reflecting the average gross margin in our select group of comparables.

Abattis (Gabriola and Green Tree) Valuation

Our consolidated income statements for the company are given below. Note that the corporate expenses of the company are included, so that our valuation reflects the total valuation of the company, less the other subsidiaries which we value separately. Furthermore, we do not include valuation of Vergence, as we do not have enough information to value that division of the company.

| STATEMENTS OF OPERATIONS (in CAD\$) - YE SEPT 30 | | | | | | | |
|---|--------------|-------------|------------|------------|------------|------------|------------|
| | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E |
| Revenue | 136,506 | 4,423,364 | 16,646,728 | 17,693,456 | 19,786,912 | 23,973,824 | 32,347,648 |
| COGS | 64,698 | 2,211,682 | 8,344,299 | 8,930,466 | 10,144,671 | 12,656,818 | 17,848,589 |
| Gross Profit | 71,808 | 2,211,682 | 8,302,429 | 8,762,990 | 9,642,241 | 11,317,006 | 14,499,059 |
| EXPENSES | | | | | | | |
| SG&A Expense | 23,299,861 | 5,529,205 | 4,161,682 | 4,423,364 | 4,946,728 | 5,993,456 | 8,086,912 |
| Share-based Compensation | 661,795 | 442,336 | 832,336 | 707,738 | 593,607 | 479,476 | 323,476 |
| Research & Development | 37,500 | 41,250 | 45,375 | 49,913 | 54,904 | 60,394 | 66,434 |
| EBITDA | (23,927,348) | (3,801,109) | 3,263,036 | 3,581,975 | 4,047,002 | 4,783,679 | 6,022,237 |
| Depreciation | 29,936 | 119,788 | 133,998 | 147,901 | 161,522 | 174,882 | 188,002 |
| Amortization | 6,500 | 6,500 | 6,500 | 6,500 | 6,500 | 6,500 | 6,500 |
| EBIT | (23,963,784) | (3,927,397) | 3,122,538 | 3,427,574 | 3,878,980 | 4,602,298 | 5,827,735 |
| Financing Costs | 1474 | | | | | | |
| EBT | (23,965,258) | (3,927,397) | 3,122,538 | 3,427,574 | 3,878,980 | 4,602,298 | 5,827,735 |
| Non-Recurring Income/ Expenses | -279,950 | | | | | | |
| Taxes | | | | | | | |
| Net Profit (Loss) | (24,245,208) | (3,927,397) | 3,122,538 | 3,427,574 | 3,878,980 | 4,602,298 | 5,827,735 |

Source: FRC

Our DCF valuation on Abattis' shares (minus the valuation of XLABS and CannaNUMUS) is \$0.12 per share.

| DCF Model | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E |
|----------------------|---------------|---------------|---------------|--------------|---------------|--------------|--------------|
| EBIT(1-tax) | \$ -6,808,868 | \$ -3,927,397 | \$ 3,122,538 | \$ 3,427,574 | \$ 3,878,980 | \$ 4,602,298 | \$ 5,827,735 |
| Non-Cash Expenses | \$ 6,373,525 | \$ 568,624 | \$ 972,834 | \$ 862,140 | \$ 761,629 | \$ 660,858 | \$ 517,978 |
| Investment in WC | \$ 786,994 | \$ 409,639 | \$ -1,955,810 | \$ -963,810 | \$ -1,491,355 | \$ -167,476 | \$ -301,458 |
| CFO | \$ 351,651 | \$ -2,949,134 | \$ 2,139,563 | \$ 3,325,903 | \$ 3,149,255 | \$ 5,095,679 | \$ 6,044,256 |
| CAPEX | \$ -7,105,639 | \$ -403,989 | \$ -412,069 | \$ -420,311 | \$ -428,717 | \$ -437,291 | \$ -446,037 |
| FCF | \$ -6,753,988 | \$ -3,353,123 | \$ 1,727,494 | \$ 2,905,592 | \$ 2,720,538 | \$ 4,658,388 | \$ 5,598,219 |
| PV | \$ -6,700,557 | \$ -3,024,179 | \$ 1,416,386 | \$ 2,165,745 | \$ 1,843,464 | \$ 2,869,610 | \$ 3,135,049 |
| Discount Rate | 10% | | | | | | |
| Terminal Growth Rate | 3% | | | | | | |
| Total PV | \$ 37,471,482 | | | | | | |
| Cash - Debt | \$ 14,106,136 | | | | | | |
| Equity Value | \$ 51,577,618 | | | | | | |
| Shares O/S (dil) | 421,041,870 | | | | | | |
| Fair Value | \$ 0.12 | | | | | | |

Source: FRC

For our discount rate, we utilized a WACC of 10%. This is based on the 5-year average ROE and debt-to-capital structure exhibited in the medicinal chemicals and botanical products industry. We also used a return on debt that reflects the average rate of long-term corporate debt. A small equity risk premium has been added to the WACC to reflect additional perceived risk.

XLABS Valuation

We use a comparable transactions approach with a focus on square-footage.

| Target | Acquirer | Transaction Date | Transaction Value | Acquired Interest | Square-Footage | Post-Money Valuation | P/SQ-FT |
|-----------------|-----------------|-------------------|-------------------|-------------------|----------------|----------------------|----------|
| Anandia Labs | CannaRoyalty | January 9, 2017 | \$ 4,000,000 | 20% | 5,400 | \$ 20,000,000 | \$ 3,704 |
| ARA-Avanti | Nuuvera | August 1, 2017 | \$ 13,260,000 | 51% | 22,000 | \$ 26,000,000 | \$ 1,182 |
| C3 Labs LLC | Evio Labs | December 11, 2017 | \$ 750,000 | 60% | 8,000 | \$ 1,250,000 | \$ 156 |
| Northern Vine | Emerald Health | August 14, 2018 | \$ 6,000,000 | 47% | 3,000 | \$ 12,765,957 | \$ 4,255 |
| Northern Vine | Emerald Health | November 21, 2017 | \$ 2,500,000 | 53% | 3,000 | \$ 4,716,981 | \$ 1,572 |
| Supra THC | Valens GroWorks | April 16, 2017 | \$ 3,750,000 | 100% | | \$ 3,750,000 | |
| Valens Agritech | Valens GroWorks | November 8, 2016 | \$ 18,000,000 | 100% | 17,000 | \$ 18,000,000 | \$ 1,059 |
| Zenalytics | Invictus MD | November 18, 2016 | \$ 300,000 | 49% | 1,500 | \$ 612,245 | \$ 408 |
| Average | | | | | | | \$ 1,762 |

Source: FRC, Public Disclosures

Given an average P/SQ-FT of \$1,762, and proposed XLABS facility square-footage of 320,000 (we utilize the entire potential square-footage), the potential transaction value of XLABS amounts to \$563.95 million. However, to account for risks associated with a start-up, pre-revenue venture, we discount this value at a rate of 50%. This is based on research regarding the targeted returns of venture capital and private equity, which we believe reflects the required return for early investors in XLABS.

Venture Capital/ Private Equity Target Returns

| Stage of development | Typical target rates of return |
|----------------------|--------------------------------|
| Start up | 50-70% |
| First stage | 40-60% |
| Second stage | 35-50% |
| Bridge / IPO | 25-35% |

Source: Aswath Damodaran (New York University), QED Research

The post-money valuation after discounting amounts to \$281.97 million. Given an ownership stake of 10%, Abattis could see the value of their stake at \$28.20 million. We believe that Abattis's investment in XLABS will impact the company's fair value by an additional \$0.07 per share.

XLABS Valuation based on Average Price-to-Square-Foot

| | |
|-----------------------------|----------------|
| Proposed Square-feet | 320,000 |
| Average P/SQ-FT | \$ 1,762 |
| Valuation | \$ 563,949,937 |
| Discount Rate | 50% |
| Post-Money Valuation | \$ 281,974,969 |
| Abattis Post-Money Value | \$ 28,197,497 |
| Fair Value Per Share Impact | \$ 0.07 |

Source: FRC

CannaNUMUS Valuation

Revenue forecasts for CannaNUMUS are exceedingly difficult due to uncertainty regarding the fundamental variables which affect a blockchain business. It is unclear what the potential size of the market CannaNUMUS is targeting is, at what rate this market is growing, and what market share CannaNUMUS can reasonably expect to obtain. Furthermore, there are no truly comparable blockchain businesses that have a successful history of revenue and cash flow generation, making inference via similar companies difficult.

Instead, we value 49% Abattis' stake in CannaNUMUS based on the Price-to-Book ("P/B") metric exhibited by comparable Canadian blockchain companies.

| Company | Ticker | Market Cap | EV | EV/ R | P/B |
|--------------------------------------|------------|----------------|----------------|-------|-------------|
| Hive Blockchain Technologies Ltd. | TSXV: HIVE | \$ 215,980,000 | \$ 196,757,000 | 12 | 1.08 |
| BTL Group Ltd. | TSXV: BTL | \$ 91,895,000 | \$ 77,618,000 | | 6.58 |
| Global Blockchain Technologies Corp. | TSXV: BLOC | \$ 68,017,000 | \$ 52,787,000 | | 0.47 |
| Glance Technologies Inc. | CSE: GET | \$ 59,399,000 | \$ 48,732,000 | 21 | 4.53 |
| Imagination Park Entertainment Inc. | CSE: IP | \$ 11,457,000 | \$ 13,105,000 | 30 | 2.70 |
| | | | | | 3.07 |

Source: FRC, Public Disclosures

Based on an average P/B of 3.07x book value exhibited by Canadian blockchain companies, we believe that the undiscounted fair market value of CannaNUMUS is \$36.86 million. Applying a 25% discount to reflect significant risks and the illiquidity of Abattis' minority stake, we estimate that the discounted fair value of the company's stake in CannaNUMUS is \$27.65 million.

| | |
|--------------------------------|---------------|
| Total Investment in CannaNUMUS | \$ 12,000,000 |
| Public Blockchain P/B | 3.07 |
| Estimated Fair Value | \$ 36,864,000 |
| Discount Rate | 25% |
| Discounted Fair Value | \$ 27,648,000 |
| Fair Value per Share Impact | \$ 0.07 |

Source: FRC

Based on the above valuations, and our review of the company's business model, quality of the management team and their execution plan, we are initiating coverage on Abattis with a BUY rating and a fair value per share estimate of \$0.30 per share.

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.
- A substantial portion of the company's estimated fair value arises from the valuation of illiquid strategic investments.
- The company has invested in a crypto-currency business. Cryptocurrencies have exhibited extreme volatility, implying potential earning volatility from the involved segment.
- Liquidity risk.
- Access to capital and share dilution.

We are initiating coverage with a risk rating of 5 (Highly Speculative).

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.

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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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