KeyStone's

DECEMBER 2014

# 2015 Cash Rich/Debt Free, Profitable Canadian Micro to Mid-Cap Report

$599 SPECIAL REPORT

Independent Equity Advisors

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## Editor's Notes

**A unique research firm, KeyStone Financial has a proven track record of successfully uncovering undervalued small-, micro-, and mid-cap growth and value stocks with tremendous upside potential, before the broader financial arena. Real companies, producing real revenue and earnings growth, trading at low prices – How do we do it? We simply dig deeper and search further into areas where traditional big bank or large institutional research will not look – providing you with independent first coverage on some of Canada's fastest growing small-cap stocks.**

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# 2015 Cash Rich/Debt Free, Profitable Canadian Micro to Mid-Cap Report

## Impetus Behind the Report

In the wake of the 2008 credit crisis that froze capital, cash in hand became king. With Western economies awash in debt, both public and private, the great deleveraging continues. Companies with strong balance sheets including zero or manageable debt, solid cash positions, good working capital, and good cash generation can withstand downturns and prosper in market upturns. As such, these Cash Rich stocks continue to garner strong market attention. This attention can come from good to premium multiples (creating share price gains) or, in the case of 16 companies over the last 3-years of our Cash Rich Reports, premium takeover bids. Both lead to superior returns for investors.

Again, the theme with these companies has been strong balance sheets and strong cash flow. This type of pristine balance sheet can withstand and even profit from a downturn (via strategic expansion through purchase of distressed assets). We believe companies that hold this profile will continue to attract more attention from individual investors and as potential acquisition targets in 2015.

Having said this, readers must be careful to remember that not all companies included in the report meet our full criteria. In fact, a large cash balance in itself does not make a great investment. If not employed effectively, the return on investment can be low and the opportunity to create excellent long-term returns can be wasted.

To compile this report, we included micro, small, and mid-cap stocks with an eye towards the lower end. Within this report, we strove to include companies with cash balances that exceeded (in most cases) 10-20% of their total market cap as a minimum. We also looked for current profitability or profitability within the last 12-months. Our bias was also towards debt free companies or those with cash balances that significantly exceeded long-term debt. Finally, we have also included our brief research notes on each company from MD&A and management interviews. We advise readers pay close attention to these. The report can be used as a tool to put together your own watch list of companies that appeal to you at certain prices and make strategic purchases. While 9 companies in the survey are already in active coverage, we are monitoring the remainder for potential entry points – reference the notes on each company for further individual details.

## Quick Coverage Briefs

From our Quick Coverage briefs, we highlight **Cipher Pharmaceuticals Inc. (CPH:TSX)**, **our Top Pick from last year's Cash Rich Report.** The stock has jumped 165% since our recommendation here last year. We maintain our long-term buy on the stock as we see the company as a potential long-term all star on our Focus BUY list, but do not expect it to replicate that type of tremendous gain over the next 12-months.

In a low oil environment and over the long term, **High Arctic Energy Services Inc. (HWO:TSX)** and **Titan Logix Corp. (TSX-V:TLA)** are attractive options. High Arctic has employed its cash rich balance sheet and is well positioned to benefit from the fruits of that cash deployment over the course of the next 1-3 years. The company remains a BUY in both the near term and long term even in the current energy environment based on what we expect to be solid growth in the second half of 2015 with its new drill rigs hitting active operation under 2-year contracts. Titan Logix trades at low relative valuations with a strong balance sheet. In the near term, the company may face growth challenges in its core market if New Tanker builds decline. Having said this, the company is entering new markets in the second half of 2015 and management is focused on deploying its cash on hand towards accretive acquisitions over the next year. The stock is suitable for long-term investors with a 2-3 year time horizon.

**Enghouse Systems Limited (ESL:TSX)** is a long-term star on our Focus BUY list and considered a core holding for many long-term clients. The stock is an excellent example of how to generate consistent cash flow and growth via that cash flow long term. We maintain our HOLD rating on the stock near term.

## Cash Rich Company Notes

This year we beefed up our individual note section providing full company summaries and written analysis with our thoughts on valuations and whether individual companies may be attractive to certain clients. We are monitoring a number of the 60+ companies for potential entry points.

Primary recommendations include our BUY (Focus BUY) on software and hardware based technology company **Sandvine Corporation (SVC:TSX)**, which offers a good mix of both growth and an excellent balance sheet at reasonable valations. Unique on demand TV-based software company **Espial Group Inc. (ESP:TSX)** also boasts a strong balance sheet, current growth and the potential for further dramatic growth via new contract wins. We expect the company to be volatile on a quarterly basis near term - SPEC BUY (Focus BUY). Finally, Micro-cap **Photon Control Inc. (PHO:TSX-V),** a


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semiconductor monitoring and measuring equipment manufacturer, offers a strong balance sheet with good current valuations for long-term patient investors - SPEC BUY (Focus BUY). Do not aggressively bid up this micro-cap stock as our reccommendation on this company looks 2 to 3 years out. Recent, SPEC BUY (Focus BUY) recommendation **Merus Labs International Inc. (MSL:TSX)** is also included in the company notes.

Outside of our 3 new recommendations included, we continue to monitor **Wanted Technologies Corporation (WAN:TSX)**, which provides real-time data analytics for the talent marketplace. We see costs escalating in the near term as the company expands into Europe which may provide a buying opportunity long term. While expensive based on current earnings and cash flow, we do appreciate the strong potential in **Avigilon Corporation's (AVO:TSX)** cutting edge end-to-end security solutions. If the company executes on its growth plans, the sell off from recent highs could be a long-term opportunity. We continue to evaluate the company.

For a relatively steady solid dividend, but not high-end growth, **Evertz Technologies Limited (ET:TSX)** is an option. New diamond producer **Lucara Diamond Corp. (LUC:TSX)** is also an interesting study with a roughly 2% dividend (+ potential special dividends) and a good balance sheet with solid free cash flow. The company is likely growth challenging in its market over the next 2-3 years but will build up a strong cash position from which to make accretive acquisitions over that time from existing operations. We will monitor the company over the next couple years.

**Great Businesses – High Valuations**

**Solium Capital Inc. (SUM:TSX)**, **Biosyent Inc. (RX:TSX-V)**, and **Sylogist Ltd (SYZ:TSX)** are all great businesses that we would like to buy – just at more attractive prices. As such, they are companies we constantly monitor for significant pullbacks. If there was a broad market correction of 15-20%, these quality businesses would be square in our crosshairs, assuming they corrected as well. Solium provides cloud-enabled services for global equity administration, financial reporting and compliance. Sylogist is a technology innovation company which, through strategic acquisitions, investments and operations management, provides intellectual property solutions to a wide range of public and private sector customers. Biosyent is a specialty pharmaceutical which inlicenses products in the Canadian market. We highlight Biosyent as the top option from our Cash Rich High Valuation stocks in our 2015 edition.

**Good Potential, Very Low Trading Volumes**

Finally, the report highlights a few stocks which have attractive qualities but shares remain relatively illiquid or the shares trade in very low volumes at present. As such, they have high liquidity risk – or the ease at which you can buy in and out of the stock is low. Of note in this respect is **Iplayco Corporation Ltd (IPC:TSX-V)** which recently entered into a significant financing/partnership which should provide a strong pipeline of long-term business. However, the dilution from the financing will impact near-term per share earnings. There may be potential entry points in 2015 for very patient small investors. Enjoy the report and as always we are available to discuss details in our weekly client chat sessions.

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## Report Definitions (Legend)

**Mid-Cap**
Stocks with a market capitalization (shares outstanding * market price) of greater than $150 million and up to $5 billion. Within the context of our Growth Stocks Coverage Universe, the stocks in this category are generally considered moderate to good in terms of liquidity (ease of buying and selling) and of moderate risk.

**Small-Cap**
Stocks with a market capitalization (shares outstanding * market price) between $35 million and $150 million. Within the context of our Growth Stocks Coverage Universe, the stocks in this category are generally considered from low to moderate in terms of liquidity (ease of buying and selling) and of high-moderate risk.

**Micro-Cap**
Stocks with a market capitalization (shares outstanding * market price) of less than $35 million. Within the context of our Growth Stocks Coverage Universe, the stocks in this category are generally considered less liquid (ease of buying and selling) and of higher risk.

**Percentage**
This column details the percentage of a company's market capitalization that is cash. Or, thought of differently, the percentage of cash per share the company holds.

**FD Shares**
The total number of shares that would be outstanding if all possible sources of conversion, such as convertible bonds and stock options, were exercised.

**Market Cap**
Market Cap or market capitalization is the total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share.

**PE**
PE or Price-Earnings Ratio is a valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share/Earnings per Share (EPS). For example, if a company is currently trading at $43 a share and earnings over the last 12 months were $1.95 per share, the P/E ratio for the stock would be 22.05 ($43/$1.95). For the purposes of this survey, the PE is based on trailing or earnings for the last four quarters.

**PE Ex Net Cash**
This is the company's trailing Price-Earnings Ratio after the cash has been removed from the market cap or the cash per share has been removed from the share price. This gives a better idea of what the market is valuing the underlying business at.

**% Rev Growth**
This is the percentage of revenue growth the company posted in its last quarter over the same quarter in the prior year.

**% Income Growth**
This is the percentage of income growth the company posted in its last quarter over the same quarter in the prior year.

## KeyStone's Rating System

The list of recommendation ratings includes:

- **BUY** – Attractive investment opportunity.
- **SPEC BUY** - Attractive investment opportunity but with significantly higher risk.
- **FOCUS BUY (SCR Only)** – Top recommendation in Small-Cap Research.
- **HOLD** – Sit tight. Do not buy or sell.
- **HOLD (SELL HALF)** – Sell half of your position and HOLD the remaining half of the position.
- **SELL** – Sell all shares in the respective company.


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# Cash Rich Companies Numbers Table A



| CASH RICH COMPANIES | | | | | | |
|---|---|---|---|---|---|---|
| COMPANY | SYMBOL | SHARE PRICE | SHARES | FD SHARES | MARKET CAP | CASH |
| Celestica Inc. | CLS | $13.24 | 184,000,000 | 186,400,000 | $2,467,936,000 | $544,300,000 |
| Evertz Technologies Limited | ET | $17.00 | 74,311,320 | 74,922,741 | $1,273,686,597 | $103,368,000 |
| Descartes Systems Group Inc. | DSG | $16.99 | 67,559,000 | 68,567,000 | $1,164,953,330 | $141,424,000 |
| Enghouse Systems Limited | ESL | $39.98 | 26,141,462 | 26,722,222 | $1,068,354,436 | $104,958,000 |
| Alamos Gold Inc. | AGI | $7.52 | 127,357,000 | 127,357,000 | $957,724,640 | $375,167,000 |
| Computer Modelling Group Ltd. | CMG | $11.51 | 78,582,000 | 80,100,000 | $921,951,000 | $65,402,000 |
| Nevsun Resources | NSU | $4.37 | 199,595,000 | 201,042,000 | $878,553,540 | $380,170,000 |
| Avigilon Corporation | AVO | $16.42 | 46,533,000 | 47,288,000 | $776,468,960 | $166,986,000 |
| Lucara Diamond Corp. | LUC | $1.98 | 378,958,828 | 380,477,152 | $753,344,761 | $133,199,000 |
| Osisko Gold Royalties Ltd | OR | $14.20 | 47,900,000 | 47,900,000 | $680,180,000 | $156,757,000 |
| Alacer Gold Corp. | ASR | $2.22 | 290,402,761 | 293,973,647 | $652,621,496 | $319,666,000 |
| Sandvine Corporation | SVC | $3.07 | 149,620,739 | 154,856,734 | $475,410,173 | $150,643,000 |
| Kinaxis Inc. | KXS | $18.86 | 23,594,556 | 24,758,532 | $466,945,914 | $55,928,000 |
| Cipher Pharmaceuticals Inc. | CPH | $16.15 | 25,486,126 | 26,305,520 | $424,834,148 | $47,581,000 |
| Wi-LAN Inc. | WIN | $3.47 | 120,211,493 | 120,211,493 | $417,133,881 | $126,095,000 |
| Reitmans (Canada) Limited | RET.A | $6.35 | 64,586,000 | 64,586,000 | $410,121,100 | $169,387,000 |
| Redknee Solutions Inc. | RKN | $3.65 | 102,921,881 | 102,921,881 | $375,664,866 | $108,636,797 |
| Solium Capital Inc. | SUM | $7.30 | 47,501,550 | 49,973,578 | $364,807,119 | $55,282,244 |
| Sandstorm Gold Ltd. | SSL | $3.06 | 117,573,079 | 118,998,596 | $364,135,704 | $91,131,000 |
| Sylogist Ltd. | SYZ | $10.60 | 22,192,855 | 22,433,758 | $237,797,835 | $24,492,840 |
| Points International Ltd. | PTS | $14.56 | 15,605,681 | 15,639,768 | $227,715,022 | $55,832,000 |
| Exfo Inc. | EXF | $3.68 | 60,329,000 | 61,015,000 | $224,535,200 | $59,847,000 |
| Axia NetMedia Corporation | AXX | $3.08 | 63,144,000 | 63,712,000 | $196,232,960 | $32,652,000 |
| Vecima Networks Inc. | VCM | $8.45 | 22,330,536 | 22,389,740 | $189,193,303 | $52,106,000 |
| Clarke Inc. | CKI | $9.34 | 19,754,291 | 19,754,291 | $184,505,078 | $175,190,000 |
| Input Capital Corp. | INP | $2.10 | 79,556,046 | 85,423,919 | $179,390,230 | $64,097,022 |
| Richmont Mines Inc. | RIC | $3.21 | 47,723,000 | 48,058,000 | $154,266,180 | $38,371,000 |
| Nobilis Health Corp. | NHC | $3.01 | 44,591,772 | 45,711,687 | $137,592,178 | $13,289,000 |
| Biosyent Inc. | RX | $9.31 | 13,801,195 | 14,495,035 | $134,948,776 | $6,454,129 |
| Petroamerica Oil Corp. | PTA | $0.15 | 825,876,788 | 825,876,788 | $123,881,518 | $63,221,000 |
| Currency Exchange International Corp. | CXI | $20.85 | 5,390,473 | 5,513,708 | $114,960,812 | $32,063,596 |

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# Cash Rich Companies Numbers Table A



| CASH RICH COMPANIES | | | | | | |
|---|---|---|---|---|---|---|
| COMPANY | SYMBOL | SHARE PRICE | SHARES | FD SHARES | MARKET CAP | CASH |
| Patient Home Monitoring Corp. | PHM | $0.72 | 134,809,794 | 154,886,345 | $111,518,168 | $3,520,538 |
| McCoy Global Inc. | MCB | $3.49 | 27,654,239 | 27,654,239 | $96,513,294 | $32,474,000 |
| TAG Oil Ltd. | TAO | $1.47 | 63,973,997 | 63,910,091 | $93,947,834 | $40,905,466 |
| Callinan Royalties Corp. | CAA | $1.73 | 49,164,588 | 49,354,588 | $85,383,437 | $24,292,762 |
| Merus Labs International Inc. | MSL | $1.57 | 54,027,137 | 54,027,137 | $84,822,605 | $62,132,704 |
| Olympia Financial Group Inc. | OLY | $32.31 | 2,496,552 | 2,496,552 | $80,663,595 | $12,047,612 |
| Questor Technology Inc. | QST | $3.02 | 25,714,761 | 26,498,220 | $80,024,624 | $5,515,185 |
| Calvalley Petroleum Inc. | CVL.A | $0.88 | 77,911,000 | 77,923,000 | $68,572,240 | $73,863,000 |
| QHR Corp. | QHR | $1.23 | 48,679,462 | 50,185,523 | $61,728,193 | $15,299,650 |
| Asian Television Network International | SAT | $2.49 | 24,402,914 | 24,402,914 | $60,763,256 | $9,680,796 |
| Dynacor Gold Mines Inc. | DNG | $1.56 | 36,458,313 | 38,729,969 | $60,418,752 | $14,256,510 |
| RDM Corporation | RC | $2.68 | 21,495,476 | 21,495,476 | $57,607,876 | $22,422,000 |
| Redline Communications Group Inc. | RDL | $3.00 | 17,020,232 | 17,020,232 | $51,060,696 | $16,532,255 |
| Photon Control Inc. | PHO | $0.41 | 101,755,615 | 109,566,505 | $44,922,267 | $11,811,807 |
| Espial Group Inc. | ESP | $1.60 | 24,486,904 | 27,910,002 | $44,656,003 | $15,835,740 |
| Automodular Corporation | AM | $2.00 | 19,378,903 | 19,378,903 | $38,757,806 | $43,806,000 |
| C-COM Satellite Systems Inc. | CMI | $1.04 | 35,782,125 | 36,908,212 | $38,384,540 | $13,676,095 |
| Caledonia Mining Corporation | CAL | $0.62 | 50,545,000 | 50,545,000 | $31,337,900 | $27,852,000 |
| Wanted Technologies Corp. | WAN | $1.19 | 24,505,609 | 25,082,982 | $29,848,749 | $7,213,212 |
| Caldwell Partners International Inc. | CWL | $1.43 | 19,512,532 | 19,600,275 | $28,028,393 | $20,552,276 |
| Integrated Asset Management Corp. | IAM | $0.82 | 27,026,650 | 27,026,650 | $22,161,853 | $17,053,124 |
| Avante Logixx Inc. | XX | $0.29 | 74,796,739 | 75,292,381 | $21,834,790 | $4,617,628 |
| Covalon Technologies Ltd. | COV | $1.09 | 9,276,171 | 19,050,032 | $20,764,535 | $4,654,773 |
| Epicore BioNetworks Inc. | EBN | $0.69 | 24,355,859 | 25,377,643 | $17,510,574 | $3,270,106 |
| Advent Wireless Inc. | AWI | $1.34 | 11,935,513 | 11,935,513 | $15,993,587 | $13,328,333 |
| CIBT Education Group Inc. | MBA | $0.22 | 64,836,997 | 64,836,997 | $14,264,139 | $6,718,858 |
| Omni-Lite Industries Canada Inc. | OML | $1.12 | 12,074,379 | 12,208,564 | $13,673,592 | $2,054,354 |
| Formation Fluid Management Inc. | FFM | $0.20 | 51,126,421 | 61,838,597 | $12,367,719 | $2,441,755 |
| Iplayco Corp Ltd. | IPC | $1.15 | 10,220,187 | 10,220,187 | $11,753,215 | $1,693,876 |
| Genterra Capital Inc. | GIC | $1.31 | 8,673,736 | 8,673,736 | $11,362,594 | $23,032,969 |
| Sangoma Technologies Corporation | STC | $0.31 | 29,261,162 | 29,261,162 | $9,070,960 | $4,012,126 |
| Imperial Ginseng Products | IGP | $0.41 | 6,511,422 | 7,297,118 | $2,991,818 | $3,876,730 |
| Hodgins Auctioneers Inc. | HA | $0.03 | 12,948,000 | 12,948,000 | $388,440 | $2,341,445 |



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# Cash Rich Companies Numbers Table B



| CASH RICH COMPANIES | | | | | | |
|---|---|---|---|---|---|---|
| COMPANY | DEBT | NET CASH | CASH/ SHARE | PERCENT-AGE | NET EARNINGS | CASH FLOW |
| Celestica Inc. | $93,500,000 | $450,800,000 | $2.42 | 18.3% | $101,300,000 | $241,700,000 |
| Evertz Technologies Limited | $1,641,000 | $101,727,000 | $1.36 | 8.0% | $71,429,000 | $91,369,000 |
| Descartes Systems Group Inc. | $- | $141,424,000 | $2.06 | 12.1% | $12,372,000 | $39,429,000 |
| Enghouse Systems Limited | $- | $104,958,000 | $3.93 | 9.8% | $29,657,000 | $48,059,000 |
| Alamos Gold Inc. | $- | $375,167,000 | $2.95 | 39.2% | -$1,046,000 | $51,796,000 |
| Computer Modelling Group Ltd. | $- | $65,402,000 | $0.82 | 7.1% | $28,658,000 | $34,103,000 |
| Nevsun Resources | $- | $380,170,000 | $1.89 | 43.3% | $67,304,000 | $114,148,000 |
| Avigilon Corporation | $- | $166,986,000 | $3.53 | 21.5% | $28,915,000 | $33,640,000 |
| Lucara Diamond Corp. | $- | $133,199,000 | $0.35 | 17.7% | $88,749,000 | $139,002,000 |
| Osisko Gold Royalties Ltd | $- | $156,757,000 | $3.27 | 23% | $23,332,000 | $31,501,000 |
| Alacer Gold Corp. | $- | $319,666,000 | $1.09 | 49.0% | $24,103,000 | $115,091,000 |
| Sandvine Corporation | $- | $150,643,000 | $0.97 | 32% | $20,566,000 | $28,136,000 |
| Kinaxis Inc. | $- | $55,928,000 | $2.26 | 12.0% | $7,922,000 | $12,448,000 |
| Cipher Pharmaceuticals Inc. | $- | $47,581,000 | $1.81 | 11.2% | $26,093,000 | $28,000,000 |
| Wi-LAN Inc. | $- | $126,095,000 | $1.05 | 30% | $11,625,000 | $56,790,000 |
| Reitmans (Canada) Limited | $5,760,000 | $163,627,000 | $2.53 | 40% | -$7,771,000 | $57,654,000 |
| Redknee Solutions Inc. | $46,559,713 | $62,077,084 | $0.60 | 17% | -$10,782,628 | -$6,457,066 |
| Solium Capital Inc. | $- | $55,282,244 | $1.11 | 15% | $11,103,349 | $12,689,258 |
| Sandstorm Gold Ltd. | $- | $91,131,000 | $0.77 | 25.0% | $7,406,000 | $35,383,000 |
| Sylogist Ltd. | $- | $24,492,840 | $1.09 | 10% | $5,160,865 | $4,650,202 |
| Points International Ltd. | $- | $55,832,000 | $3.57 | 25% | $5,507,000 | $11,163,000 |
| Exfo Inc. | $- | $59,847,000 | $0.98 | 26.7% | -$851,000 | $11,468,000 |
| Axia NetMedia Corporation | $4,592,000 | $28,060,000 | $0.44 | 14.3% | $1,005,000 | $4,952,000 |
| Vecima Networks Inc. | $3,146,000 | $48,960,000 | $2.19 | 26% | $12,887,000 | $29,622,000 |
| Clarke Inc. | $3,222,000 | $171,968,000 | $8.71 | 93.2% | $130,213,000 | $17,148,000 |
| Input Capital Corp. | $- | $64,097,022 | $0.75 | 35.7% | -$2,286,796 | $6,207,043 |
| Richmont Mines Inc. | $7,583,000 | $30,788,000 | $0.64 | 20% | -$21,929,000 | $30,312,000 |
| Nobilis Health Corp. | $3,304,000 | $9,985,000 | $0.22 | 7% | $3,531,000 | $6,967,000 |
| Biosyent Inc. | $- | $6,454,129 | $0.45 | 4.8% | $2,956,424 | $2,993,519 |
| Petroamerica Oil Corp. | $30,718,000 | $32,503,000 | $0.04 | 26% | $26,525,000 | $71,952,000 |
| Currency Exchange International Corp. | $910,434 | $31,153,162 | $5.65 | 27.1% | $4,043,542 | $4,771,470 |

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# Cash Rich Companies Numbers Table B



| CASH RICH COMPANIES | | | | | | |
|---|---|---|---|---|---|---|
| COMPANY | DEBT | NET CASH | CASH/ SHARE | PERCENT-AGE | NET EARNINGS | CASH FLOW |
| Patient Home Monitoring Corp. | $1,034,360 | $2,486,178 | $0.02 | 2.2% | $1,616,858 | $3,144,332 |
| McCoy Global Inc. | $- | $32,474,000 | $1.17 | 33.6% | $7,988,000 | $16,816,000 |
| TAG Oil Ltd. | $- | $40,905,466 | $0.64 | 44% | $10,470,341 | $30,291,756 |
| Callinan Royalties Corp. | $- | $24,292,762 | $0.49 | 28.5% | $5,675,793 | $5,828,004 |
| Merus Labs International Inc. | $32,143,023 | $29,989,681 | $0.56 | 35.4% | -$4,368,448 | $6,437,089 |
| Olympia Financial Group Inc. | $- | $12,047,612 | $4.83 | 15% | $5,091,947 | $6,004,826 |
| Questor Technology Inc. | $- | $5,515,185 | $0.21 | 7% | $3,731,049 | $5,081,907 |
| Calvalley Petroleum Inc. | $- | $73,863,000 | $0.95 | 107.7% | $6,532,000 | $10,607,000 |
| QHR Corp. | $- | $15,299,650 | $0.30 | 25% | -$1,120,921 | $2,076,756 |
| Asian Television Network International | $2,208,441 | $7,472,355 | $0.31 | 12.3% | $2,119,337 | $3,631,489 |
| Dynacor Gold Mines Inc. | $505,233 | $13,751,277 | $0.36 | 22.8% | $6,894,667 | $8,369,618 |
| RDM Corporation | $- | $22,422,000 | $1.04 | 39% | $2,845,000 | $4,187,000 |
| Redline Communications Group Inc. | $5,143,293 | $11,388,962 | $0.67 | 22% | -$1,200,369 | -$404,637 |
| Photon Control Inc. | $- | $11,811,807 | $0.11 | 26% | $4,610,641 | $8,063,210 |
| Espial Group Inc. | $- | $15,835,740 | $0.57 | 35.5% | $2,531,332 | $2,924,723 |
| Automodular Corporation | $- | $43,806,000 | $2.26 | 113.0% | $11,940,000 | $14,662,000 |
| C-COM Satellite Systems Inc. | $- | $13,676,095 | $0.37 | 36% | $2,889,174 | $2,705,249 |
| Caledonia Mining Corporation | $998,000 | $26,854,000 | $0.53 | 85.7% | -$9,121,000 | $16,311,000 |
| Wanted Technologies Corp. | $- | $7,213,212 | $0.29 | 24.2% | $2,258,739 | $2,745,345 |
| Caldwell Partners International Inc. | $- | $20,552,276 | $1.05 | 73.3% | $1,286,739 | $76,261 |
| Integrated Asset Management Corp. | $- | $17,053,124 | $0.63 | 76.9% | $310,867 | $549,853 |
| Avante Logixx Inc. | $51,579 | $4,566,049 | $0.06 | 20.9% | $550,067 | $1,148,473 |
| Covalon Technologies Ltd. | $621,487 | $4,033,286 | $0.21 | 19.4% | $3,418,532 | $3,900,510 |
| Epicore BioNetworks Inc. | $451,203 | $2,818,903 | $0.11 | 16.1% | $1,383,101 | $1,427,831 |
| Advent Wireless Inc. | $- | $13,328,333 | $1.12 | 83.3% | $1,142,754 | $1,586,825 |
| CIBT Education Group Inc. | $837,599 | $5,881,259 | $0.09 | 41.2% | -$2,389,069 | -$2,690,595 |
| Omni-Lite Industries Canada Inc. | $- | $2,054,354 | $0.17 | 15% | $251,871 | $939,015 |
| Formation Fluid Management Inc. | $490,968 | $1,950,787 | $0.03 | 15.8% | -$212,860 | $465,350 |
| Iplayco Corp Ltd. | $4,515,129 | -$2,821,253 | -$0.28 | -24.0% | $1,229,243 | $1,905,111 |
| Genterra Capital Inc. | $8,257,691 | $14,775,278 | $1.70 | 130.0% | $155,893 | $816,436 |
| Sangoma Technologies Corporation | $17,035 | $3,995,091 | $0.14 | 44.0% | -$39,711 | $2,204,596 |
| Imperial Ginseng Products | $2,962,569 | $914,161 | $0.13 | 30.6% | $937,317 | $1,142,341 |
| Hodgins Auctioneers Inc. | $1,629,308 | $712,137 | $0.05 | 183.3% | -$367,360 | -$272,866 |



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# Cash Rich Companies Numbers Table C



| CASH RICH COMPANIES | | | | | | | |
|---|---|---|---|---|---|---|---|
| COMPANY | PE | PE EX CASH | PRICE/CF | P/CF EX CASH | % REV GROWTH | % INC GROWTH | % EPS GROWTH |
| Celestica Inc. | 24.4 | 19.9 | 10.2 | 8.3 | 4.8% | 66.8% | 63.1% |
| Evertz Technologies Limited | 17.8 | 16.4 | 13.9 | 12.8 | 53.6% | 66.7% | 62.5% |
| Descartes Systems Group Inc. | 94.2 | 82.7 | 29.5 | 26.0 | 11.5% | 107.0% | 66.7% |
| Enghouse Systems Limited | 36.0 | 32.5 | 22.2 | 20.0 | 20.0% | 14.5% | 12.5% |
| Alamos Gold Inc. | nm | nm | 18.5 | 11.2 | -39.6% | -102.0% | -102.0% |
| Computer Modelling Group Ltd. | 32.2 | 29.9 | 27.0 | 25.1 | 14.7% | 33.2% | 28.5% |
| Nevsun Resources | 13.1 | 7.4 | 7.7 | 4.4 | 475.0% | 2083.0% | 2068.0% |
| Avigilon Corporation | 26.9 | 21.1 | 23.1 | 18.1 | 38.6% | 34.8% | 8.7% |
| Lucara Diamond Corp. | 8.5 | 7.0 | 5.4 | 4.5 | 116.0% | 148.0% | 146.0% |
| Osisko Gold Royalties Ltd | 29.2 | 22.4 | 21.6 | 16.6 | nm | nm | nm |
| Alacer Gold Corp. | 27.1 | 13.8 | 5.7 | 2.9 | -26.9% | -43.0% | -44.4% |
| Sandvine Corporation | 23.1 | 15.8 | 16.9 | 11.5 | 2.6% | -34.3% | -41.1% |
| Kinaxis Inc. | 58.9 | 51.9 | 37.5 | 33.0 | 14.4% | nm | nm |
| Cipher Pharmaceuticals Inc. | 16.3 | 14.5 | 15.2 | 13.5 | 27.9% | 96.9% | 92.1% |
| Wi-LAN Inc. | 35.9 | 25.0 | 7.3 | 5.1 | 18.6% | nm | nm |
| Reitmans (Canada) Limited | nm | nm | 7.1 | 4.3 | -4.5% | 69.2% | 69.2% |
| Redknee Solutions Inc. | nm | nm | nm | nm | 32.4% | nm | nm |
| Solium Capital Inc. | 32.9 | 27.9 | 28.7 | 24.4 | 12.3% | -26.7% | -33.3% |
| Sandstorm Gold Ltd. | 49.2 | 36.9 | 10.3 | 7.7 | -8.7% | nm | nm |
| Sylogist Ltd. | 46.1 | 41.3 | 51.1 | 45.9 | -16.4% | 75.2% | 75.0% |
| Points International Ltd. | 41.4 | 31.2 | 20.4 | 15.4 | 12.8% | 35.6% | 30.0% |
| Exfo Inc. | nm | nm | 19.6 | 14.4 | -4.7% | nm | nm |
| Axia NetMedia Corporation | 195.3 | 167.3 | 39.6 | 34.0 | 20.3% | nm | nm |
| Vecima Networks Inc. | 14.7 | 10.9 | 6.4 | 4.7 | 6.8% | 136.0% | 136.0% |
| Clarke Inc. | 1.4 | 0.1 | 10.8 | 0.7 | -14.7% | -23.7% | -20.9% |
| Input Capital Corp. | nm | nm | 28.9 | 18.6 | nm | nm | nm |
| Richmont Mines Inc. | nm | nm | 5.1 | 4.1 | 61.1% | nm | nm |
| Nobilis Health Corp. | 39.0 | 36.1 | 19.7 | 18.3 | 125.0% | nm | nm |
| Biosyent Inc. | 45.6 | 43.5 | 45.1 | 42.9 | 56.0% | 64.1% | 75.0% |
| Petroamerica Oil Corp. | 4.7 | 3.4 | 1.7 | 1.3 | -21.2% | nm | nm |
| Currency Exchange International Corp. | 28.4 | 20.7 | 24.1 | 17.6 | 83.4% | -0.6% | -31.5% |

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# Cash Rich Companies Numbers Table C



| CASH RICH COMPANIES | | | | | | | |
|---|---|---|---|---|---|---|---|
| COMPANY | PE | PE EX CASH | PRICE/CF | P/CF EX CASH | % REV GROWTH | % INC GROWTH | % EPS GROWTH |
| Patient Home Monitoring Corp. | 69.0 | 67.4 | 35.5 | 34.7 | 499.0% | 1468.0% | 600.0% |
| McCoy Global Inc. | 12.1 | 8.0 | 5.7 | 3.8 | 32.9% | 20.4% | 15.4% |
| TAG Oil Ltd. | 9.0 | 5.1 | 3.1 | 1.8 | -10.0% | 45.2% | 36.1% |
| Callinan Royalties Corp. | 15.0 | 10.8 | 14.7 | 10.5 | 0.5% | -24.3% | -24.4% |
| Merus Labs International Inc. | nm | nm | 13.2 | 8.5 | -17.7% | nm | nm |
| Olympia Financial Group Inc. | 15.8 | 13.5 | 13.4 | 11.4 | 3.2% | -13.9% | -12.9% |
| Questor Technology Inc. | 21.4 | 20.0 | 15.7 | 14.7 | 4.6% | 3.1% | 3.1% |
| Calvalley Petroleum Inc. | 10.5 | -0.8 | 6.5 | -0.5 | -61.7% | -88.7% | -85.7% |
| QHR Corp. | nm | nm | 29.7 | 22.4 | 6.6% | nm | nm |
| Asian Television Network International | 28.7 | 25.1 | 16.7 | 14.7 | 1.4% | 18.3% | 18.3% |
| Dynacor Gold Mines Inc. | 8.8 | 6.8 | 7.2 | 5.6 | -14.5% | -40.0% | -37.5% |
| RDM Corporation | 20.2 | 12.4 | 13.8 | 8.4 | 3.7% | nm | nm |
| Redline Communications Group Inc. | nm | nm | nm | nm | 29.0% | nm | nm |
| Photon Control Inc. | 9.7 | 7.2 | 5.6 | 4.1 | 11.6% | -40.3% | -40.9% |
| Espial Group Inc. | 17.6 | 11.4 | 15.3 | 9.9 | 32.2% | nm | nm |
| Automodular Corporation | 3.2 | nm | 2.6 | n | 13.2% | 50.9% | 58.3% |
| C-COM Satellite Systems Inc. | 13.3 | 8.6 | 14.2 | 9.1 | -4.5% | 16.1% | 13.0% |
| Caledonia Mining Corporation | nm | nm | 1.9 | 0.3 | -19.2% | -72.4% | -69.4% |
| Wanted Technologies Corp. | 13.2 | 10.0 | 10.9 | 8.2 | 7.8% | -82.3% | -84.2% |
| Caldwell Partners International Inc. | 21.8 | 5.8 | 367.5 | 98.0 | 33.4% | nm | nm |
| Integrated Asset Management Corp. | 71.3 | 16.4 | 40.3 | 9.3 | 45.1% | 166.0% | 166.0% |
| Avante Logixx Inc. | 39.7 | 31.4 | 19.0 | 15.0 | 3.2% | -49.5% | -61.1% |
| Covalon Technologies Ltd. | 6.1 | 4.9 | 5.3 | 4.3 | -12.5% | nm | nm |
| Epicore BioNetworks Inc. | 12.7 | 10.6 | 12.3 | 10.3 | 46.0% | 123.0% | 118.0% |
| Advent Wireless Inc. | 14.0 | 2.3 | 10.1 | 1.7 | -28.2% | -41.4% | -20.0% |
| CIBT Education Group Inc. | nm | nm | nm | nm | 40.8% | nm | nm |
| Omni-Lite Industries Canada Inc. | 54.3 | 46.1 | 14.6 | 12.4 | -2.3% | -13.8% | -13.0% |
| Formation Fluid Management Inc. | nm | nm | 26.6 | 22.4 | -54.6% | -89.4% | -92.8% |
| Iplayco Corp Ltd. | 9.6 | 11.9 | 6.2 | 7.7 | 46.3% | 292.0% | 300.0% |
| Genterra Capital Inc. | 72.9 | nm | 13.9 | nm | 9.0% | nm | nm |
| Sangoma Technologies Corporation | nm | nm | 4.1 | 2.3 | -5.9% | -106.0% | -106.0% |
| Imperial Ginseng Products | 3.2 | 2.2 | 2.6 | 1.8 | nm | nm | nm |
| Hodgins Auctioneers Inc. | Nm | 0.9 | Nm | 1.2 | -39.7% | -38.9% | -32.3% |



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| CASH RICH COMPANIES | |
|---|---|
| **COMPANY** | NOTES |
| **Celestica Inc. (CLS:TSX)** | The company delivers end-to-end product lifecycle solutions. Celestica manage a product's complete lifecycle from development to delivery to support. Provides an integrated end-to-end supply chain offering from the initial concept phase – providing design and engineering expertise, new product introduction, supply chain design and commodity management to supporting the end customer. With a market cap of $2 billion, the company is not truly a small-cap in Canada, but offers a strong balance sheet and reasonable valuations. The company has struggled to produce revenue growth over the last 5-years and we do not see a near-term growth driver. |
| **Evertz Technologies Limited (ET:TSX)** | Founded in 1966, a leading equipment provider to the television broadcast telecommunications and new-media industries. Evertz designs, manufactures and markets video and audio infrastructure equipment for the production, post-production and transmission of television content. Strong balance sheet, solid dividend (4.2%) which appears sustainable. Growth is decent, but not high. Based on cash flow the stock is not cheap, but trades at a market equivalent PE with an above average dividend which makes it attractive for moderately aggressive investors, particularly on pullbacks - MONITOR. |
| **Descartes Systems Group Inc. (DSG:TSX)** | Provides on-demand, software-as-a-service (SAAS) solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Descartes has over 200,000 parties using its cloud-based services. Customers use modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; file customs and security documents for imports and exports; research and perform trade tariff and duty calculations and complete numerous other logistics processes by participating in the world's largest, collaborative multi-modal logistics community. Growth has been solid and a recent acquisition should add to the top-line in 2015. The market is paying up for the stock at present with a price-to-cash flow multiple above 25. We like the company and its business, but it is not cheap and more than fairly valued on current fundamentals - MONITOR. |
| **Enghouse Systems Limited (ESL:TSX)** | Global provider of enterprise software solutions serving a variety of distinct vertical markets. Its strategy is to build a larger and more diverse software company through strategic acquisitions and managed growth. Enghouse serves a number of distinct vertical markets through its three divisions, each developing and selling enterprise oriented applications software.1) Enghouse Interactive: communications software and services that are designed to enhance customer service. 2) Enghouse Networks: network software and visual computing solutions for a broad range of utilities including Telecommunications Service Providers, Electric, Oil and Gas Utilities that are deploying next generation networks and smart grid solutions around the world. 3) Enghouse Transportation: develops and delivers solutions for public and private transportation industries through innovative computerized applications and consulting support. Enghouse is a long-term BUY (Focus BUY). The company is well run and generated strong free cash flow. While not cheap at current prices, management has proven its growth-by-acquisition and consistently grows both top and bottom line earnings well above market rates. Near-term HOLD. For long-term clients looking 2-5 years out, we consider Enghouse a Long-Term BUY. Layering into the stock overtime is a good selection. |
| **Alamos Gold Inc. (AGI:TSX)** | Alamos is an established Canadian-based gold producer that owns and operates the Mulatos Mine in Mexico and has exploration and development activities in Mexico, Turkey and the United States. The company employs more than 500 people and is committed to the highest standards of sustainable development. Alamos has approximately $375 million in cash and cash equivalents, is debt-free, and unhedged to the price of gold. As a junior gold producer, operates in a segment which we do not view as one that generally creates long-term value. On a relative valuation basis, Alacer (see below) trades at more attractive levels. |
| **Computer Modelling Group Ltd. (CMG:TSX)** | Software technology company serving the oil and gas industry. The company is a leading supplier of advanced processes reservoir modelling software with a blue chip customer base of international oil companies and technology centers in more than 50 countries. Computer Modelling also provides professional services consisting of highly specialized support, consulting, training, and contract research activities. The company has sales and technical support services based in Calgary, Houston, London, Caracas, Dubai, Bogota and Kuala Lumpur. We are impressed by the company's management and view it as a well run business with solid ongoing revenues and profitability. The company has a strong balance |

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| CASH RICH COMPANIES | |
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| **COMPANY** | NOTES |
| **Computer Modelling Group Ltd. (CMG:TSX)** | sheet which could be used to grow via strategic acquisitions. In the sharp downturn facing the oil segment, the stock has traded lower, but not as low as we would like to see. It is a name we may want to own if it takes a further hit in 2015 which could see growth slowing due to lower capital budgets from its customers in the oil patch. MONITOR for potential long-term entry points in 2015. |
| **Nevsun Resources (NSU:TSX)** | Vancouver-based mining company with an operating mine in Eritrea. Nevsun's 60%-owned Bisha Mine commenced commercial copper concentrate production in December 2013 and ranks as one of the highest grade open pit copper mines in the world. Nevsun has a strong balance sheet (40% + of market cap in cash) and relatively attractive valuations based on trailing cash flow (4x). The company has above average geopolitical risk - HOLD. |
| **Avigilon Corporation (AVO:TSX)** | Cutting edge innovative end-to-end security solutions. Avigilon has industry-leading HD network video management software, megapixel cameras, access control and video analytics products which are reinventing the security market. The company has stumbled after a strong run up after quarterly per share earnings growth slowed and the company lost a few key executives. Revenue growth remains strong and the company is targeting strong growth in 2016 - goal of $500 million in run-rate revenue by the end of 2016. This target is a bit subjective and aggressive. If the company hits it, with a strong balance sheet and holds margins, the stock looks attractive for investors with a high tolerance for risk. Current valuations are high and factor in very strong future growth - MONITOR. |
| **Lucara Diamond Corp. (LUC:TSX)** | New diamond producer - experienced board and management team with extensive diamond development and operations expertise. The company's two key assets are the Karowe Mine in Botswana and the Mothae Project in Lesotho. The 100% owned Karowe Mine is in production. The 75% owned Mothae Project has completed its trial mining program. Lucara was awarded two precious stone prospecting licenses within the Orapa Kimberlite field in close proximity to the Karowe Diamond mine during the period. The company has ordered a bulk sampling plant and will commence work programs on the two prospecting licenses during 2015. Lucara is undergoing a plant optimization project, spending $55 million to increase overall capacity and decrease long-term costs as well as to aid in the recovery of large diamonds. The plant optimization project is forecast to be complete during the second quarter of 2015. Management appears to have done a solid job brining the mine online and producing strong free cash flow. Management is conservatively forecasting revenue of between $230 to $240 million from the sale of 400,000 to 420,000 carats of diamonds in 2015. Karowe operating cash costs are expected to be between $33-$36 per tonne treated. Mining is forecast at 2.5-2.8 million tonnes of kimberlite. The revenues will be higher in the second half of 2015, potentially providing entry points during the first part of 2015. Following the completion of the plant optimization project, Karowe will focus extensively on processing material from the South Lobe (larger diamonds). Management believes it will be an exciting second half of 2015 based on the South Lobe diamonds, which have historically achieved stronger diamond valuations at their tenders and have contained a high population of specials (+10.8 carats). The stock has high geopolitical risk, but is producing strong cash flow, with low relative valuations and a strong balance sheet for growth which can offset this risk for risk tolerant investors - MONITOR. |
| **Osisko Gold Royalties Ltd. (OR:TSX)** | Went public in June 2014 - gold-focused royalty company whose cornerstone asset is a 5% Net Smelter Royalty (NSR) royalty on the world-class Canadian Malartic gold mine, located in Malartic, Quebec. The company also holds a 2% NSR royalty on the Upper Beaver, Kirkland Lake and Hammond Reef gold exploration projects in Northern Ontario. Company has over $170 million in cash resources, no debt and a portfolio of investments in emerging exploration companies. As announced on November 17, 2014, Osisko and Virginia have entered into a definitive agreement to combine the two companies to create a new intermediate royalty company with two world-class gold royalty assets in Québec. Only one full quarter of financial performance available. Earnings, cash flow and valuation data in this report based on annualized third quarter financials. The company has two attractive royalty assets and appears fairly value at present. The company is well positioned to fund strong, but cash poor gold & other precious metal companies in the current down market with its strong cash on hand. The success of the company will ultimately be determined by how well management deploys the cash, and by the price of gold long term - MONITOR. |


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| CASH RICH COMPANIES | |
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| **COMPANY** | NOTES |
| **Alacer Gold Corp. (ASR:TSX)** | Intermediate gold mining company with an 80% interest in the world-class Çöpler Gold Mine in Turkey. The company's primary focus is to maximize portfolio value, maximize free cash flow, minimize project risk and therefore create maximum value for shareholders. During 2014, Çöpler is forecasted to produce 160,000 to 180,000 attributable ounces of gold at all-in Costs of $730 to $780 per ounce. Çöpler's oxide ore is currently being processed in a conventional crush, agglomeration, heap-leach and gold recovery circuit. The company continues to pursue further expansion of its current operating base to become a sustainable multi-mine producer with a focus on Turkey. The company has a very strong balance sheet and continues to produce solid cash flow. Alacer has relatively high geopolitical risk and as a junior gold producer, operates in a segment which we do not view as one that generally creates long-term value. For those who want exposure to gold, it is an option - MONITOR. |
| **Sandvine Corporation (SVC:TSX)** | Sandvine's network policy control solutions add intelligence to fixed, mobile and converged communications service provider networks to enable services that can increase revenue and reduce network costs. Powered by Sandvine's Policy Engine and SandScript policy language, Sandvine's networking equipment provides end-to-end policy control functions including traffic classification, and policy decision and enforcement across the data, control and business planes. Sandvine's network policy control solutions are deployed in more than 250 networks in over 90 countries, serving hundreds of millions of data subscribers worldwide. From a valuation perspective, Sandvine trades at a discount to peers, despite its solid free cash flow generation, excellent balance sheet, and solid growth potential over the next 5-years. While the bugaboo of net neutrality hovers over the company, we see a long-term opportunity. While it is true that the company can post lumpy earnings on a quarterly basis, Sandvine has posted eight consecutive quarters of positive earnings and solid 2-year earnings growth. The consensus estimate for Q4 2014 earnings is in the range of $0.04 per share giving the company $0.14 in 2014 earnings. Consensus calls for 28% growth in earnings in 2015 to the $0.18 level. Based on this figure, Sandvine trades at 16.77 times next year`s earnings which is moderately attractive given its growth. However, when we strip out the $1.00 per share in cash, the company`s PE multiple is quickly reduced to 11.22 which appears very attractive given the growth - BUY (Focus BUY). |
| **Kinaxis Inc. (KXS:TSX)** | Provider of cloud-based subscription software that enables customers to improve and accelerate analysis and decision-making across their supply chain operations. The supply chain planning and analytics capabilities of its product, RapidResponse, create the foundation for managing multiple, interconnected supply chain management processes. By using the single RapidResponse product instead of combining individual disparate software solutions, their customers gain visibility across their supply chains, can respond quickly to changing conditions, and ultimately realize significant operating efficiencies. New listing operating in a hot segment with strong growth. Current valuations are relatively high and factor in strong future growth – as such, the stock is not cheap - MONITOR. |
| **Cipher Pharmaceuticals Inc. (CPH:TSX)** | Specialty pharmaceutical company with three commercial products and a fourth in development, which are improved formulations of successful marketed drugs. Cipher acquires products that fulfill high unmet medical needs, manage the required clinical development and regulatory approval process, and market those products either directly or through partners. Cipher was the top selection in last year's Cash Rich Report and jumped over 130% since this time driven by tremendous revenue growth from its lead product. While growth will be moderate from this product until new markets are penetrated, the company has an approx $50 million in cash to make further product acquisitions in 2015. Cipher has no debt and despite its gains, currently trades at a PE multiple in line with the market and below peers - Long-Term BUY (Focus BUY). |
| **Wi-LAN Inc. (WIN:TSX)** | Founded in 1992, WiLAN is an intellectual property (IP) licensing company that was originally created to develop and commercialize technology that made low-cost, high-speed wireless networking a reality. In its early years, WiLAN manufactured several generations of proprietary products and its inventions were also used in other products offered by industry. By 2005, WiLAN's inventions were commercialized in millions of wireless networking devices worth many billions of dollars. Realizing the value that its intellectual property brought to industry, in 2006, WiLAN focused its business on protecting and monetizing patented inventions. Today, some of the world's largest technology companies |

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| CASH RICH COMPANIES | |
|---|---|
| **COMPANY** | NOTES |
| **Wi-LAN Inc. (WIN:TSX)** | license patents in WiLAN's portfolio. From a valuation perspective, WiLAN appears attractive. We estimate the company should earn $0.47 per share (with the potential to beat) on an adjusted basis in 2014. The company holds an excellent balance sheet with $126.1 million, or $1.05 per share, and zero debt. If we remove the cash, the company is currently trading at a relatively low 5.25 times our estimated adjusted earnings for 2014. We are looking for the company to execute on its growth plan over the next 2-3 years and looking for 15-25% share price growth with the current 5.88% dividend also providing a solid percentage of the total return - BUY (Focus BUY). |
| **Reitmans (Canada) Limited (RET.A:TSX)** | Ladieswear specialty apparel retailer with retail outlets throughout Canada. The company operates 843 stores consisting of 343 Reitmans, 141 Penningtons, 105 Addition Elle, 79 RW & CO., 68 Thyme Maternity and 107 Smart Set. The company also operates 21 Thyme Maternity shop-in-shop boutiques in select Babies"R"Us locations in Canada. Reitmans is currently trying to orchestrate a significant turnaround as many of its brands have faced stiff competition and the brands have suffered. Cost cutting led to profit growth in the last quarter, but earnings remain down year-to-date. The company has announced store closures and shows some value as a turnaround situation for investors looking for this type of investment – MONITOR. |
| **Redknee Solutions Inc. (RKN:TSX)** | Provider of innovative software products, solutions and services. Redknee's solutions enable service providers to monetize new services, business models and content and to deliver a connected customer experience - through either SaaS or on-premise based solutions. The company's real-time monetization and subscriber management platform provides innovative converged charging, billing, policy management, and customer care solutions for over 200 communications service providers and is supporting service providers to monetize digital services across utilities and smart meters, transportation, connected homes and vehicles, and other enterprises that are emerging from the growing ecosystem of the Internet of Things (IOT). Redknee has produced strong revenue growth over the past couple years but has continued to miss profitability estimates. The consensus is for the company to post positive earnings in the range of $0.17 per share in 2015, but the estimates have been too optimistic in the past. If estimates are hit, the stock could look attractive, but its lack of profitability and near-term track record prevent a positive rating. |
| **Solium Capital Inc. (SUM:TSX)** | Provides cloud-enabled services for global equity administration, financial reporting and compliance. From offices in the United States , Canada , the United Kingdom , Spain , France , and Australia , the company's innovative software-as-a-service (SaaS) technology powers share plan administration and equity transactions for more than 3,000 corporate clients with employee participants in more than 100 countries. Solium is a business that we like and foresee as a solid long-term business. The issue has been with the premium investors are paying for the stock at a rich 25 times trailing cash flow (ex cash on hand). For investors who like to "pay-up" for growth and solid technology businesses, Solium is a long-term option. The company is off recent highs as earnings disappointed in the most recent quarter. We look for a further pullback to establish initial positions - MONITOR. |
| **Sandstorm Gold Ltd. (SSL:TSX)** | Gold streaming and royalty company. Provides upfront financing to gold mining companies that are looking for capital and in return, receives a gold royalty. 2014 production forecasted between 40,000 to 50,000 ounces – based on current agreements estimate 2017 production of approximately 45,000 ounces. While price-to-cash-flow ex cash is attractive versus peers, management's investment track record has been spotty ($91.2 million in impairment charges recognized in 2013) and the discount is to a large degree justifiable. Has speculative value as a somewhat diversified play on higher gold price – potential turnaround following tax loss selling – MONITOR. |
| **Sylogist (SYZ:TSX)** | Technology innovation company which (through strategic acquisitions, investments and operations management) provides intellectual property solutions to a wide range of public and private sector customers. Smart growth-by-acquisition companies raise funds when their shares are richly valued – to this end Sylogist recently raised $27 million at $11.00. Near term this may be a consolidation point for the stock ahead of new acquisitions. Sylogist is another business we like with a sharp management team that continue to grow operations through accretive acquisitions. The stock is pricy at present, trading at over 40 times trailing cash flow, but the growth in cash flow and earnings is very strong. For investors who like to pay-up for growth and solid technology businesses, Sylogist is a long-term option - MONITOR. |


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| CASH RICH COMPANIES | |
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| **COMPANY** | NOTES |
| **Points International Ltd. (PTS:TSX)** | Global leader in loyalty currency management. Via a state-of-the-art loyalty commerce platform, Points provides loyalty eCommerce and technology solutions to the world's top brands to enhance their consumer offerings and streamline their back-end operations. Points' solutions enhance the management and monetization of loyalty currencies, ranging from frequent flyer miles and hotel points to retailer and credit card rewards, for more than 50 partners worldwide. Points also manages Points.com where almost 4 million consumers use the only industry sanctioned loyalty wallet to not only track all of their loyalty programs but also trade, exchange and redeem their miles and points. In addition to these services, Points' unique SaaS products allow merchants and businesses to reward their customers with points and miles from the world's largest loyalty brands. Points shares have had a rough ride in the second half of 2014, cut in half from above the $30 range in the first quarter. The stock was overvalued in the near-term at this point and is beginning to appear more attractive, but moderately so based on current fundamentals. If management hits growth targets over the next 3-years, the strong balance sheet and earnings growth make it attractive in its current range, but it is not strikingly undervalued. Growth did moderate in the latest quarter. We monitor for potential entry points in 2015 - MONITOR. |
| **Exfo Inc. (EXF:TSX)** | Provider of next-generation test, service assurance and end-to-end quality of experience solutions for mobile and fixed network operators and equipment manufacturers in the global telecommunications industry. The company has a solid balance sheet, but incurred net loss in fiscal 2014 after accounting for foreign exchange. Not investable at present given the lack of profitability. |
| **Axia NetMedia Corporation (AXX:TSX)** | Owns, operates and sells services over fibre optic communications infrastructure. We like the company's balance sheet and business mid and long term. The company's $20.0 million investment in Alberta to build 1,526 km of fibre between 27 larger communities in the province is on track and on budget. Current fundamental valuations are high, meaning the stock is not cheap based on business on hand. The future appears bright given capex investments in the past and present should pay off with future cash flow, but with the recent run-up in shares, the stock is would look more attractive on a pullback. - MONITOR. |
| **Vecima Networks Inc. (VCM:TSX)** | Designs, manufactures and sells products that enable broadband access to cable, wireless and telephony networks. The company's hardware products incorporate embedded software developed in house to meet the complex requirements of next generation high-speed digital networks. Service providers use Vecima's solutions to deliver services to a con-verging worldwide broadband market, including what are commonly known as "triple play" (voice, video and data) and "quadruple play" (voice, video, data and wireless) services. The company's products increase bandwidth by maximizing the capacity of existing network infrastructure. From a valuation perspective, we see Vecima's base technology equipment business currently generating adjusted net income of $0.60 per share on an annual basis. Given a 10 times multiple, we arrive at a business valuation of $6.50. Over the next year and if we add in additional potential asset sales, we view the break-up value (including net cash on hand) of the remaining or non-core assets at approximately $3.90 per share. Finally, if we add the expected $0.45 per share in cash generated over the next year, we arrive at a fair value of $10.35. In its current $8.45 range the stock is a BUY – BUY. |
| **Clarke Inc. (CKI:TSX)** | Halifax-based Clarke invests in a variety of private and publicly-traded businesses and participates actively where necessary to enhance the performance of such businesses and increase its return. Focused on acquiring undervalued or underperforming businesses with hard assets, working with management to improve operations, capital allocation and performance and divesting once corporate results and valuations have improved. Non-cash unrealized gains from investments are recognized in revenues and net income. Current net income is not a reliable indicator of future financial performance. Trading at a significant discount to book value in the range of $12.90. Dividend appears attractive but is not supported by cash flow quarterly as cash flow is lumpy due to the nature of Clarke's business. The company's new management team has produced a good track record over the last 2-years and an investment in Clarke is a bet on management's ability to continue to purchase and grow undervalued assets - MONITOR. |

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| CASH RICH COMPANIES | |
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| **COMPANY** | NOTES |
| **Input Capital Corp. (INP:TSX)** | An agriculture commodity streaming company with a focus on canola, the largest and most profitable crop in Canadian agriculture. Input enters into canola streaming contracts with canola farmers in Western Canada. Pursuant to the streaming contract, Input purchases a fixed portion of the canola produced, at a fixed price, for the duration of the term of the contract. Input is a non-operating farming company with a portfolio of twenty one canola streams, all of which produce canola and revenue for Input in the year the agreement is signed. Input plans to grow and diversify its low cost canola production profile through entering into additional canola streaming contracts with farmers across Western Canada. A relatively new company with an intriguing business model, but based on current valuations (multiple to trailing or forward looking cash flow) the stock is not cheap - MONITOR. |
| **Richmont Mines Inc. (RIC:TSX)** | The company has produced over 1.4 million ounces of gold from its operations in Quebec, Ontario and Newfoundland since beginning production in 1991. Richmont currently produces gold from the Island Gold Mine in Ontario and the Beaufor Mine and Monique Mine in Quebec. The company is also advancing development of the extension at depth of the Island Gold Mine in Ontario. With over 20 years of experience in gold production, exploration and development, and prudent financial management, Richmont is well-positioned to cost-effectively build its Canadian reserve base and to successfully enter its next phase of growth. The company recently increased guidance higher for 2014 gold production, for a second time, to a revised level of 85,000 to 90,000 ounces. Based on forecasted cash flow for 2014, the company trades at relatively attractive multiples to cash flow, although cash costs were up in the latest quarter. The company offers decent exposure to gold and could perform well in a flat or increasing gold environment – MONITOR. |
| **Nobilis Health Corp. (NHC:TSX)** | Owns and manages nine healthcare facilities in Texas and Arizona; a surgical hospital (Houston), five ambulatory surgery centers, two MRI centers and an urgent care center. The five ambulatory surgery centers are located in Houston (three), Dallas and Scottsdale, Arizona. Completed three acquisitions in 2014 which have produced strong topline growth. Recent acquisition of Athas, a healthcare marketing company which currently has marketing relationships with 16 surgical centers, adds growth. In 2013, Athas showed revenues of $29 million and EBITDA of $3 million. The estimated Athas revenue for 2014 is approximately $40 million with adjusted EBITDA in excess of $5 million. On the negative side, the company incurs large charges to non-controlling interest which complicate earnings and cash flow analysis. Reported profitable Q3 compared to net loss in same period last year. Currently pursuing a listing on a national U.S. stock exchange. 2 years ago we recommended the company as a "High Risk, Potentially High Reward" micro-cap when it was known as Northstar Healthcare, with the stock trading between $0.10-$0.20. The growth has been very strong and exceeded our expectations. Current valuations are high and we would take profits at this stage. |
| **Biosyent Inc. (RX:TSX)** | Profitable growth oriented specialty pharmaceutical company which searches the globe to in-license or acquire innovative pharmaceutical products that have been successfully developed and are safe and effective. Once found, BioSyent acquires the exclusive rights to the product and manages it through the Canadian governmental regulatory approval process and if approved, BioSyent markets the product throughout Canada. Well run with a solid balance sheet and good business model. The company continues to grow both revenues and cash flow per share at a high rate, but is richly valued even on a forward looking basis at 35 times earnings. If growth continues, the stock can grow in the 25-35% range, but the market has priced the company for a high level of execution. It is an option for high risk clients, but we continue to view the balance sheet and valuations on Cipher (CPH:TSX) in this market to be more attractive – MONITOR. |
| **Petroamerica Oil Corp. (PTA:TSX)** | Canadian oil and gas exploration and production company with interests in twelve blocks, located in Colombia's Llanos and Putumayo Basins. The company has a solid balance sheet and based on trailing (past 12-months) cash flow, the stock looks very cheap. Having said this, cash flows will decline in the near term with the price of oil collapsing. The company is in the process of consolidating its shares 10-1. Following this consolidation, if the shares show further weakness, the company many be very attractive for those wishing to play an eventual upswing in the price of oil and the strong cash flow this would produce for the company. We will monitor for potential entry points - MONITOR. |


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| **COMPANY** | NOTES |
| **Currency Exchange International Corp. (CXI:TSX)** | In the business of providing a range of foreign currency exchange and related products and services in North America, including the Hawaiian Islands. Primary products and services include the exchange of foreign currencies, wire transfer payments, purchase and sale of foreign bank drafts and international traveler cheques, and foreign cheque clearing. Related services include the licensing of proprietary FX software applications delivered on its web-based interface, and licensing retail foreign currency operations to select companies in agreed locations. The company is also looking to gain Charter bank status in Canada. The company has posted strong growth in 2014 so far and exceeded our expectations from our original recommendation in the $6.00 range. While valuations are not cheap at present based on cash flow over the last 12-months, the growth and balance sheet justify higher than average multiples. In the near term we see the shares as fairly valued. Potential catalysts include news on the Canadian bank status and continued quarterly growth. We are monitoring the company - HOLD. |
| **Patient Home Monitoring Corp. (PHM:TSX)** | Acquisition-oriented, profitable company servicing patients with heart disease and other chronic health conditions. The company is focused on acquiring companies in a highly fragmented and developing market of small privately-held companies servicing chronically ill patients with multiple disease states caused mainly by age and obesity. Because of the new and highly fragmented nature of the market, Patient Home is actively identifying and evaluating profitable, annuity-based companies to acquire at favorable prices for their patient databases and technical expertise. Management's post-acquisition organic growth strategy is to increase annual revenue per patient by offering multiple services to the same patient, consolidating the patient's services and making life easier for the patient. The expected result is growing earnings per share with each acquisition and growing revenue and profits from the cross selling efforts. The company has done a good job so far growing operations and management has stated its current annualized revenue run rate is $35 million and annualized Adjusted EBITDA run rate is $8.8 million, or $0.057 per share. This is tremendous growth over the previous year but leaves the company trading at about 12.5 times forward EBITDA which is not cheap. If the company continues to grow at current rates, the stock has value long term. We continue to MONTOR. |
| **McCoy Global Inc. (MCB:TSX)** | Provides innovative products and services to the global energy industry. The company operates internationally through direct sales and distributors, with operations in Canada, the U.S, the United Kingdom, Singapore and the United Arab Emirates. Well run oil service stock with new innovative products and a strong balance sheet. The current valuations look attractive, but the company will face a pullback in capital spending given the correction in oil prices. There will be a time to buy for the next cycle in oil prices, but we await this time until we buy back in. Again, a solid oil company that will be around for the next up cycle in oil and we await a re-entry point - MONITOR. |
| **TAG Oil Ltd. (TAO:TSX)** | Canadian-based production and exploration company with extensive operations in New Zealand. With 100% ownership over all its core assets, including extensive state-of-art oil and gas production infrastructure, TAG is enjoying significant organic value creation through exploration success and ongoing development and appraisal drilling of several light oil and gas discoveries. As New Zealand's leading explorer, TAG actively drills high-impact conventional and unconventional exploration prospects identified within the company's Taranaki Basin, East Coast Basin and Canterbury Basin acreage which is prospective for major discovery in New Zealand. Valuations are attractive and given the strong balance sheet the company can withstand a downturn. Having said this, cash flow will decrease significantly based on lower oil prices near term – MONITOR. |
| **Callinan Royalties Corp. (CAA:TSX)** | Engaged in the creation and acquisition of mineral royalties. Currently holds a 6% net profits interest royalty which will be converted to a 4% NSR on January 1, 2015. Also a production royalty of $0.275 per metric tonne of ore milled on lands that include the producing 777 mine and 777 North mine operated by Hudbay Minerals Inc. which will be retained. The company invests its royalty income to provide alternative financing options to mineral exploration and development companies with the goal of future royalties – to date none are revenue producing outside the Hudbay agreements. Decent valuations, but not cheap. Strong 4.7% dividend. |
| **Merus Labs International Inc. (MSL:TSX)** | Specialty pharmaceutical company engaged in the acquisition and licensing of pharmaceutical products. Merus utilizes its expertise in pharmaceutical markets and its access to capital to acquire and license niche branded products. Merus further enhances the sale and |

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| **COMPANY** | NOTES |
| **Merus Labs International Inc. (MSL:TSX)** | distribution of these products by the introduction of a focused marketing and promotion plan. Recently, acquired from Novartis AG, in certain European countries, the rights to manufacture, market, and sell the branded prescription medicine product Sintrom® (acenocoumarol). Acenocoumarol is ananticoagulant indicated for the treatment and prevention of thromboembolic diseases. Sintrom® has been available in Europe for over 50 years and in 2013 the product had net sales of approximately US$28 million in the territories acquired. Acquisition funded with cash on hand and a debt facility provided to Merus by a syndicate of lenders which also refinanced the company's existing debt. The company recently appointed a new CEO which we see as a positive. Merus has stated it expects to double EBITDA in 2015. Based on this, it appears the company is trading at a discount to peers - SPEC BUY (Focus BUY). |
| **Olympia Financial Group Inc. (OLY:TSX)** | A non-deposit taking trust company which administers self-directed registered accounts and offers foreign currency exchange services. Also offers private health services plans through its wholly-owned subsidiary Olympia Benefits Inc and operates an ATM business through its wholly-owned subsidiary Olympia ATM Inc. Last year, the company divested of its corporate and shareholder services assets for $43 million. Valuations are decent and the balance sheet is strong but the lack of current growth does not make the company stand out versus peers. |
| **Questor Technology Inc. (QST:TSX)** | International environmental oilfield services provider founded in late 1994 and headquartered in Calgary, Alberta, Canada with a field office located in Grande Prairie, Alberta. The company is focused on clean air technologies with activities in Canada, the United States, Europe and Asia. Questor designs and manufactures high combustion efficiency waste gas incinerators for sale or for use on a rental basis and also provides combustion-related oilfield services. The company's proprietary incinerator technology destroys noxious or toxic hydrocarbon gases which enables regulatory compliance, environmental protection, public confidence and reduced operating costs for customers. Questor has seen tremendous revenue and cash flow growth in recent years providing a much needed solution for the energy industry. It holds a solid balance sheet and good growth which could moderate in the near term due to the collapse in oil prices. If growth continues, it offers value for those investors who are comfortable paying up for growth. Based on current fundamentals, the stock is not cheap and will have to continue its growth path to support higher prices - MONITOR. |
| **Calvalley Petroleum Inc. (CVL.A:TSX)** | Engaged in crude oil and natural gas exploration, development and production. The company's activities are carried out in three geographical segments: Yemen, Ethiopia and Canada. Calvalley trades below its cash in the bank value, but faces an uncertain future as operations in Yemen have experienced intermittent production due to the geopolitical environment - High risk. |
| **QHR Corp. (QHR:TSX)** | Healthcare IT and solutions company. QHR's Accuro®EMR is a connected platform that provides electronic medical records, billing and scheduling for family physicians, medical specialists, and surgeons, that is a key component in the move throughout Canada to provide electronic healthcare records for all Canadians. QHR also provides clearinghouse services through its SoftCare brand, supporting payers and assisting healthcare providers to exchange claim information accurately for health claim reimbursement. The company's recurring revenue run rate of $23.0 million at the end of Q3 2014 is an increase of 23% from the same period last year. The company is not undervalued based on current earnings or cash flow multiples but the consensus estimates are for positive earnings and growth in earnings up to between $0.05-$0.07 per share over the next 3-years. Based on this, and the fact it may be a takeover target, the company has speculative value. It does not however match our full criteria due to its lack of current solid profitability. |
| **Asian Television Network International (SAT:TSX)** | Specialty, pay television broadcasting and television broadcasting advertising mainly aimed at the South Asian community in Canada. It has 52 premium specialty television channels. Growth is moderate and valuations appear fair, slightly overvalued at present with a solid 3.7% dividend. |
| **Dynacor Gold Mines Inc. (DNG:TSX)** | A gold and silver ore processing and a gold exploration and mining company active in Peru through its subsidiaries since 1996. Dynacor differentiates itself from pure exploration companies as it also generates income and cash flow from its wholly owned gold ore processing plant in Peru. Assets include three exploration properties, including the Tumipampa property, as well as its now 250 tpd gold and silver ore processing mill at Huanca. Dynacor's mill produces gold from the processing of ore purchased from many registered |


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| **COMPANY** | NOTES |
| **Dynacor Gold Mines Inc. (DNG:TSX)** | miners. The company has a strong balance sheet with a reasonable price-to-cash flow multiple ex cash. The company's model is relatively unique and it produces solid cash flow, but remains dependent on the price of gold staying in its current range or higher for its contributing miners to continue to send business its way. Decent value for exposure to gold, but KeyStone views gold related stocks generally as poor investment vehicles – MONITOR. |
| **RDM Corporation (RC:TSX)** | Provider of remote deposit capture (RDC) and complex desktop remittance processing solutions designed to help clients simplify the way they do business. The company designed a fully electronic system to scan a cheque at a business location and electronically transfer the digital information to the bank for deposit and settling to eliminate the paper and speed up deposits. Four of the top ten financial institutions in the United States use RDM's payment processing solutions. RDM processes over $600 billion in payments annually and helps corporations and financial institutions increase revenue, expand market share and improve customer service for over 30,000 end-users. RDM serves 32 percent of the top 100 Fortune 500 companies including brokerage firms, big box retailers, healthcare and insurance providers, and government entities. The company has transitioned to profitability and currently offers good value based on current earnings when its strong cash balance is factored in. In the near term, we see the shares as attractive, however, as its main source of revenues is associated with chequing – a medium of payment we view as decreasing over time – there is a significant threat facing RDM. The company has a very strong cash position (over $22 million) from which to make potentially accretive acquisitions - MONITOR. |
| **Redline Communications Group Inc. (RDL:TSX)** | Provider of industrial wide area communications in oil and gas, with multi-purpose wireless networks that enable digital oilfields across the globe. Major producers worldwide rely on Redline to engineer, plan and deliver secure and reliable networks for their drilling and production, delivering M2M, voice, data and video communications to increase productivity. The company has struggled to produce long-term profitability. At present, despite posting solid revenue growth, its industry and current fundamentals do not make the company attractive near term. |
| **Photon Control Inc. (PHO:TSX)** | Designs, manufactures and sells optical sensors and instruments to measure temperature, pressure, position and flow which are used by original equipment manufacturers in the semiconductor (90% of sales) and oil and gas and manufacturing industries. Based on current fundamentals, Photon screens very well with and an attractive multiple to cash flow and a very strong balance sheet and strong growth over the past 3-years. Having said this, the company's primary industry, semiconductors, is cyclical. Over the past 10-years, the company has grown revenues from $1.00 million to what should be well over $20 million in 2014. It was not a straight-line up, its industry is cyclical, but the company has seen lower revenue lows in cyclical downturns and higher revenue highs in upturns. Photon has also built a strong safety net of $11.8 million, or $0.11 per share, in cash which will allow the company to survive a downturn. Q3 earnings excluding forex gains were down primarily due to $472,000 in tax expense compared to zero tax expense last year. On a pre-tax basis, earnings were flat year-over-year. The company's backlog remains at record levels. We expect a cyclical downturn in business at some time over the next year from record levels, but not for business to dry-up and for the company to continue to produce cash flow. In its current range ($0.41), the stock appears attractive for those looking 2-5 years out. Potential near and long-term catalysts include a new OEM customer outside North America, the lower Canadian dollar, and acquisitions from cash on hand. Establish initial half positions under $0.45 - SPEC BUY (Focus BUY). |
| **Espial Group Inc. (ESP:TSX)** | Supplier of digital TV and IPTV software and solutions to cable MSOs and telecommunications operators as well as consumer electronics manufacturers. Espial's middleware, video-on-demand, and browser products power a diverse range of pay-TV and Internet TV business models. With Espial trading at an Enterprise Value/EBITDA ratio of just over 8, the company trades at a discount to peers which currently trade at close to 11. While not incredibly cheap, the company's technology leadership, strong growth, balance sheet and prudent management team combine to make the company attractive for investors with above average risk tolerance and a 1-3 year outlook as the company is able to prove out its business model over time. As such, we are initiating coverage on Espial with a SPEC BUY rating and placing the company on our Focus BUY list. We do not advise clients chase the stock and place limit orders below the $1.75 range. |
| **Automodular Corporation (AM:TSX)** | A supplier of sub-assembly, sequencing and transportation services to the automotive industry - Ford Motor Company's Oakville Assembly Plant. The company has two operating facilities and employs approximately 525 people. Lost contract to Ford which currently |

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| **COMPANY** | NOTES |
| **Automodular Corporation (AM:TSX)** | represents the entirety of its business. Will continue to provide services to Ford until the end of 2014 but will effectively have no operations afterwards. Fundamental valuations other than cash on hand are irrelevant at present as future cash flow is uncertain. Management continues to search for new avenues (business) to deploy cash. The company's future will depend on management's skill in deploying cash on hand – an investment in the company is a bet on how well management deploys cash. Based on this, the company has some speculative value, but it is high risk - MONITOR. |
| **C-COM Satellite Systems Inc. (CMI:TSX)** | Development and deployment of commercial grade mobile satellite-based technology for the delivery of two-way high-speed Internet, VoIP and Video services into vehicles. C-COM has developed a unique proprietary Mobile auto-deploying (iNetVu®) antenna that allows the delivery of high-speed satellite based Internet services into vehicles while stationary, virtually anywhere where one can drive. The iNetVu® Mobile antennas have also been adapted to be airline checkable and easily transportable. After a record year in 2011, driven by disaster related one-time sales, C-COM has found it difficult to produce growth. Having said this, the company is consistently profitable – posting 42 consecutive quarters of positive net income, has an excellent balance sheet with almost 40% of its value in cash, and pays a 4.3% dividend at current prices. The company trades in light volumes and is not for traders, but offers solid value in its current range long term through its dividend, potential growth catalysts via recent new products, and as a takeover target. As it is small and with just slightly above average growth prospects near term, the company should not be bought for quick gains. It is suitable for investors with patience who appreciate the dividend and consistent cash flow and the reasonable share price - BUY (Focus BUY). |
| **Caledonia Mining Corporation (CAL:TSX)** | Caledonia is an exploration, development and mining corporation focused on Southern Africa. Following the implementation of indigenisation at the Blanket Gold Mine in September 2012, Caledonia's primary asset is a 49% legal ownership in Blanket, an operating gold mine in Zimbabwe. High geographic risk. Company is cheap based on cash flow and solid cash position. Caledonia has a relatively low current production base of 40,000 ounces of gold for 2014. Junior gold producers in general hold a high level of risk. |
| **Wanted Technologies Corp. (WAN:TSX)** | Founded in 1999, provides real-time data analytics for the talent marketplace. WANTED began collecting detailed Hiring Demand data in June 2005, and currently maintains a database of more than one billion unique job listings. The company's proprietary software WANTED Analytics™ helps recruiting organizations make better decisions faster with real-time business intelligence on jobs, employers, and talent. Good growth in revenues and cash flow over the past 3-years. Earnings in 2014 included gains that were one time in nature – PE is lower due to these gains. Spending has ramped up on the company's new international product and to expanding its direct sales force in order to best exploit and accelerate the global market penetration for its big data analytics solutions in the Human Capital Management sector. Near term this will likely put pressure on profitability compared to the prior year, but the strong balance sheet, future growth, and decent profitability make the company attractive, particularly on weakness around the $1.00 range - MONITOR. |
| **Caldwell Partners International Inc. (CWL:TSX)** | International provider of executive search for more than 40 years. The company has built a solid reputation on successful searches for boards, chief and senior executives, and selected functional experts. Caldwell has offices and partners across North America and in London. The company has grown revenue from $16 million from 27 partners billing an average $0.6 million per partner in 2009 to $45 million in revenue from an average of 32 partners billing $1.4 million per partner in 2014 - a 22.8% compound annual growth rate. Benefitted in last year from better U.S. hiring. Cash position is currently artificially high and will normalize after compensation is paid to partners. Cash flow is now positive and the company provides decent near-term value with an attractive dividend. Company should continue to benefit from a stronger U.S. economy in 2015 – HOLD. |
| **Integrated Asset Management Corp. (IAM:TSX)** | Alternative asset management company with approximately $1.9 billion in assets and committed capital under management in real estate, private debt, managed futures and private equity as of December 4, 2014. The stock is not very liquid (low trading volumes) and while the balance sheet is good, the cash flow generation is relatively weak and revenues are currently declining. |
| **Avante Logixx Inc. (XX:TSX)** | Toronto-based security and technology company. Its subsidiaries, Avante Security Inc. and INTO Electronics Inc., together provide best in class security response and other security services for residential and commercial and high-rise condominium applications. Relatively high valuations given its small revenue and cash flow base. Good balance sheet, but share count continues to rise and per share cash flow is not increasing. |


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| **COMPANY** | NOTES |
| **Covalon Technologies Ltd. (COV:TSX)** | Researches, develops and commercializes new healthcare technologies. Covalon's technologies are used to prevent, detect and manage medical conditions in specialty areas such as wound care, tissue repair, infection control, disease management, medical device coatings and biocompatibility. The company has posted strong revenue growth in 2014, but largely due to a one-time payment earlier in the year. The last quarter showed a slight decline in revenues and a return to a loss. For a small company, the balance sheet is strong and the company is intriguing in a hot sector, but its OEM model has been subject to inconsistent profitability - MONITOR. |
| **Epicore BioNetworks Inc. (EBN:TSX)** | Producer of environmental biotechnology and animal nutrition products. Good valuations and strong growth in current market conditions driven by Early Mortality Syndrome (EMS) in Asia and Mexico which has reduced the worldwide supply of shrimp, pushing shrimp prices to record levels. Producers (Epicore's customers) are currently trying to capitalize on record high shrimp prices. If these conditions continue, the stock appears undervalued and growth will continue. We believe at some point the market will deal with EMS and shrimp prices should ease – this is the risk. Good speculative value, but the stock trades with low volumes - MONITOR. |
| **Advent Wireless Inc. (AWI:TSX)** | Independent specialty retailer of personal wireless and wireline communication products and services under the Rogers/Fido brands. Close to cash value and low on an earnings or takeover basis – very low valuation price-to-cash flow of approx 2 when cash is removed. Earnings are declining however. Has good speculative value, but stock is too thinly traded for a recommendation. |
| **CIBT Education Group Inc. (MBA:TSX)** | Education management company focused on the global education market since 1994. CIBT Group owns and operates a network of business, technical and language colleges in North America and Asia. The company is cash rich but not really profitable. Reported some development revenues in 2014 which were not fully reflected on the cash flow statement – we monitor the company but with a lack of consistent profitability at present we do not consider it investable. |
| **Omni-Lite Industries Canada Inc. (OML:TSX)** | Specializing in the manufacture of precision components forged from advanced composite and other alloyed materials. These components are produced utilizing computer-controlled cold forging systems that are networked to provide an optimal environment for engineering enhancements, leading to maximum production efficiencies. Operates four business segments defined as the Military, Aerospace, Sports and Recreation, and Specialty Automotive divisions. Omni-Lite is a small manufacturer with contracts in hand and appears to be on a growth path once again. The company has had a history of lumpy quarterly profits, but has some near-term speculative value due to the earnings momentum. It is very small and the stock trades on low volumes - MONITOR. |
| **Formation Fluid Management Inc. (FFM:TSX)** | Developed a waste water treatment plant that uses a proprietary process to clean waste water. The system is mobile and can be scaled to process required volumes. This system treats water to meet or exceed CCME Guidelines (Canadian Environmental Quality Guidelines), resulting in reusable water that can be used for: Boilers, Frac Water, Water Floods, and Drilling Operations. Formation's technology solution appears very intriguing and the company's recent profitable quarters appear to prove out its relevance. We fear the current uncertainty in the oil market may curtail spending on the company's potentially profitable technology solution. While the share count has increased at a rate we do not like to see, the company has some long-term speculative value - MONITOR. |
| **Iplayco Corp Ltd. (IPC:TSX)** | Global leader in the design, manufacturing and installation of premium-quality, fun, safe and durable play structures for children. Iplayco has sold over 2,600 play structures to over 50 countries worldwide. Iplayco built the world's largest children's indoor soft-play park for Billy Beez, a family entertainment centre of 2,316.79 square meters (24,937.72 square feet) inaugurated in May 2013 in the Mall of Dhahran, Al Khobar, Saudi Arabia. The company recently reported the highest annual sales in its 15 year history and took on a new investment partner in a potentially company changing event. Saudi FAS Holding Company purchased what amounted to 53% of Iplayco's common shares outstanding via an $8.8 million private placement. FAS is planning to expand its chain of Billy Beez family entertainment centres to hundreds of locations worldwide and build a globally recognizable brand. FAS is investing in Iplayco to secure supply of play structures for its Billy Beez expansion. We see this as a significant long-term opportunity for Iplayco. However, in the near term, |

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| **COMPANY** | NOTES |
| **Iplayco Corp Ltd. (IPC:TSX)** | while we expect moderate revenue and earnings growth, we expect net earnings per share to decrease significantly in 2015 compared to 2014 due to dilution from the issuance of 10,650,000 common shares and 1,065,000 share purchase warrants to FAS. The company will hold a cash rich balance sheet and is positioned to gain significant business long term. We monitor the stock for potential long-term buying opportunities on weakness in 2015. The stock trades in low volumes at present. |
| **Genterra Capital Inc. (GIC:TSX)** | A management and holding company whose assets include rental real estate properties and investments. The company trades at less than cash on hand, but its cash flow is lumpy as it does not bank consistent revenues from operating businesses. Certain asset based investors may be attracted to the company based on value. It does not post the growth or consistent profitability that we look for. |
| **Sangoma Technologies Corporation (STC:TSX)** | Provider of hardware and software components that enable or enhance IP Communications Systems for both telecom and datacom applications. Sangoma's data boards, voice boards, gateways and connectivity software are used in leading PBX, IVR, contact center and data-communication applications worldwide. The company posted decent profitability in 2014, but has struggled to produce any growth over the past 5-years and its market continues to be relatively small and challenging. Valuations are low and the company is a potential takeover target and has some speculative value based on this. We do not see the growth or size necessary to make a recommendation. |
| **Imperial Ginseng Products (IGP:TSX)** | Cultivates and processes North American ginseng in Ontario and sells roots mainly to Asia through distributors. Ginseng is harvested in the fall and, generally, the marketing and selling of the dried ginseng root is the most active in the winter and throughout the spring. Subsequently, the company generates most of, and at times all of, its revenues for the year in the second and third fiscal quarters. Given this and the uncertain nature of its crop yield, the earnings are lumpy. The stock is illiquid and while we could make a case for some value it does not appear investable at present. |
| **Hodgins Auctioneers Inc. (HA:TSX)** | Was an auction company conducting business in Western Canada. The company appears to have changed its business and is now exploring for uranium. We have no interest in this business and do not see it as investable. Junior resource exploration stocks, cash rich or not, are historically very speculative in nature and most produce terrible returns. |


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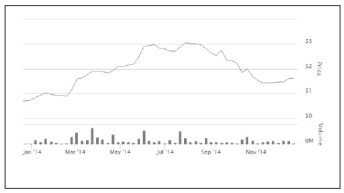

## Espial Group Inc.

**Current Price (December 24/2014): $1.60**

**ESP:TSX**

**RECOMMENDATION: SPEC BUY (FOCUS BUY)**

*Shares Outstanding*.....24,486,904
*Fully Diluted Shares Outstanding*.....27,910,002

### SELECTED QUARTERLY DATA

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| Net Earnings | $1,333,116 | $(5,678,369) |
| EPS | $0.05 | $(0.23) |
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| Long-Term Debt | $- | $- |
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| Long Term Debt | $- | $- |
| Book Value | $7,246,680 | $9,009,099 |
| ROE | -76% | -30% |

## SUMMARY OF OPERATIONS

Espial is a leading developer and marketer of TV Browser and TV Everywhere software solutions to consumer electronics manufacturers and telecommunications service providers. Espial has shipped over 10 million licenses of its software to these industries.

The Espial TV Browser product allows Smart TV manufacturers to provide a full web experience on their TVs, set-top boxes, digital media adapters and other devices. TV manufacturers are projected to ship increasing numbers of web-enabled TVs over the next several years. Espial provides them with a high performance browser to provide their consumers with a full web experience including access to over-the-top video, social media, news sites and sports sites.

The company's primary service driver is the Espial Media Service Platform and Espial MediaBase Platform which enable the delivery of TV Everywhere and IPTV services over Internet Protocol broadband networks. Espial's products allow communications service providers, including telecommunications operators, cable TV, satellite TV and Internet service providers (ISPs), to deploy TV Everywhere and IPTV services to their subscribers. Espial's powerful platforms facilitate the provisioning of innovative video services such as video-on-demand, time-shift TV and interactive services. TV Everywhere and IPTV deployments in the industry continue to increase, however the timing and growth rates remain challenging to predict. Some factors affecting this are industry consolidation in Europe and Japan (including some of the company's existing customers), long integration timelines, extended sales cycles to service providers, the current financial challenges many European countries face and the rise of new web-based TV competitors such as NetFlix.

## THE PROBLEM FOR INCUMBENT SERVICE PROVIDERS

Incombent Cable, Satellite, Telecom Service Providers are facing subscriber erosion. Consumers are consuming their media (Movies, TV shows, and music) differently today. They want on demand services quickly and to be able to pick and choose viewing options with social media integration. While these incombents typically have huge amounts of content, their delivery platforms are antiquated closed systems which stifle innovation, have high operations costs and are tied to expensive hardware. The competitive threat is coming from new consumer providers including NetFlix, YouTube, and Amazon which have open web platforms that allow rapid innovation, can be operated at low costs and are hardware agnostic.

Essentially, while the incumbent providers have the content, their delivery systems are largely out of date, slow, antiquated, and nothing close to what today's consumer demand

### RATINGS

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|---|---|
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| PEG Ratio | 0.52 |
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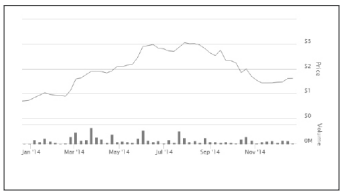

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in terms of user experience and choice. As subscribers erode, they are pressed to implement new user friendly experiences under modified models – enter Espial.

### The Opportunity

Espial's HTML5 platform enables HTML5 (HTML5 is a core technology markup language of the Internet used for structuring and presenting content for the World Wide Web) high performance, cloud user experience & services. The company's platform allows for rapid service velocity through the simplified creation of new services, business models, and revenues streams. The company's platform is integrated with Comcast's RDK platform which was founded by Comcast (the largest broadcasting and cable company in the world by revenue). RDK is an open source operating system for set-top boxes which is supported by top global operators like Comcast, Liberty Global, Vodafone, and Time Warner. There are currently 180+ licensees.

In discussions with 25 of top 60 global operators, Espial has attracted attention from world's largest TV operators, and many have called the company's solution a best in class product. Espial has already announced a Tier 1 North America cable customer and is currently negotiating with approximately 8 more.

### FINANCIAL PERFORMANCE

Espial generates revenue by selling software licenses either on a per device (e.g. set-top box, Smart TV, Blu-ray player) basis or on a per subscriber basis. These licenses typically include upfront fees, together with recurring annual maintenance fees. The company also generates revenue by offering professional services such as consultancy, software integration and installation. Espial expects to generate revenue through the sale of additional licenses to existing communications service providers and consumer electronic manufacturers, as they increase penetration of their TV offerings in their traditional subscriber base, as well as through the addition of new communications service providers. Subsequent to the initial license purchase, communications service providers may purchase additional licenses for new products and services. Espial also earns license fees when current subscribers replace or upgrade their existing set-top boxes or when they install additional set-top boxes in their homes.

A portion of Espial's revenue is generated via channel partners who integrate the company's products into their IPTV solutions that are sold to communications service providers. Espial has entered into license agreements with several leading set-top box manufacturers, network vendors and IPTV system integrators. This global distribution network provides the company with broad worldwide reach to capitalize on the expected growth in the IPTV market. As well

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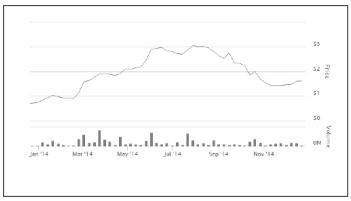

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an increasing percentage of its revenue is expected to come from Smart TV manufacturers which license browser products to provide a full web experience on their TVs and other devices such as set-top boxes, digital media adapters.

Revenue increased 71% to $14.75 million in the nine months ended September 30, 2014, from $8.65 million in the same period of 2013. Revenue from software license sales and deployments totalled $5.8 million, an increase of 28% from $4.55 million in the same period of 2013. The increase was primarily due to increased license revenue from existing European customers that expanded their products to include multi-screen solutions and license revenue from a North American channel partner that manufactures set-top-boxes. Revenue from support totalled $3.59 million, an increase of 15% from $3.11 million, in the same period of 2013 primarily due to the increase in cumulative licenses under support. Revenue from professional services totalled $5.33million, an increase of 440% from $987,272 in the same period of 2013 primarily due to integration work being performed for a North American cable company that purchased the company's IPTV solution and due to paid proof of concepts for customers that are evaluating the company's IPTV solution as part of their next-generation TV offering.

For the nine months ended September 30, 2014, EBITDA income increased to $2.6 million compared to a loss of $3.5 million last year. Sharp Corporation expanded its deal with Espial to include new LED Smart TV models. Net income increased to $1.34 million, or $0.06 per share, from a loss of ($5.68 million) in the same period of the prior year.

## GROWTH

### Acquisitions

Espial continues to post positive cash flow and conducted a smart financing in June of this year when the company's shares had jumped ahead of current fundamentals issuing 4,035,120 common shares at a price of $2.85 for gross proceeds of $11.5 million. As such, the company has an excellent balance sheet with $15.8 million, or $0.57 per share, in cash and no debt. Management has successfully made strategic acquisitions in the past and we expect the company to continue this trend in the future with a prudent eye towards long-term cash flow growth.

### Opportunity for Espials Disruptive Technology for Service Providers and Electronics Manufactures

Management remains confident that telecommunication service providers around the world believe that the delivery of video content is critical to their future business successes. In addition, customer feedback continues to suggest that cable television service providers have begun to assess the value of IPTV to their businesses much sooner than the industry had anticipated and this also bodes well for the future growth of the market. Finally, Espial is optimistic that

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consumer electronics manufacturers will continue to invest in next-generation TV and TV devices requiring a full web browsing experience.

## CONCLUSION

While Espials current earnings on a trailing basis make the company moderately attractive, the company's growth rate, potential addressable market and cash rich balance sheet make it more attractive for those investors who can stomach quarterly volatility with an eye to potentially solid earning weighted more towards the second half of 2015.

Given Espials size (relatively small), decision period and length of individual contract awards, we expect the company to post lumpy or uneven quarterly numbers. We do not see this as unusual for an early stage industry which the company is operating in. As such, we caution clients that quarter-to-quarter comparisons of operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results. The company's growth story will be driven by the signing of additional Tier 1 contracts.

Having said this, Espial's management team has done an excellent job creating solid patented technologies, which service a potentially lucrative new market that helps solve a significant problem of subscriber erosion from large content rich service providers.

Espial's shares reached the $3.00 range earlier this summer on the back of strong quarterly numbers, a Tier one cable customer win, and the company's strong and growing balance sheet – bolstered by a timely financing at the $2.85 range. In the near term, the move was overly optimistic and with news that one of its proof-of-concepts (POC) customers in Q2 would not proceed to contract (one of 2 did), the stock dropped and appears to have been a victim of short-term investors over tax-loss selling season as its shares have almost halved from its summer highs. Espial was, however, able to engage another large service provider in a POC.

For Espial it is estimated that a major Tier 1 North American cable operator contract could be worth $15-20 million over the first three to five years as the solution is rolled out to customers. In addition, Espial could see an incremental $2-3 million in recurring maintenance revenue once the solution is fully implemented across the entire customer base. As such, these contract wins are game changing for Espial. Currently, there are two proof-of-concept projects for customers that are evaluating the Espial's IPTV solution as part of their next-generation TV offering. While at this stage a positive or negative result of these POC's are unknown but decisions by at least one of these potential contracts should come in Q1 2015 and the other by the end of Q2 2015 –

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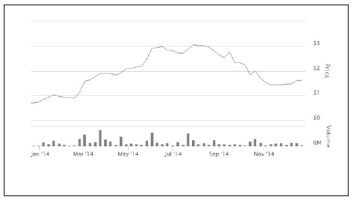

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providing strong "potential" catalysts. Espial is also in negotiations with 8 service providers vs. 6 in the previous quarter with some of these not requiring a POC to sign a contract.

**With Espial trading at an Enterprise Value/EBITDA ratio of just over 8, the company trades at a discount to peers which currently trade at close to 11. While not incredibly cheap, the company's technology leadership, strong growth, balance sheet and prudent management team combine to make the company attractive for investors with above average risk tolerance and a 1-3 year outlook as the company is able to prove out its business model over time. As such, we are initiating coverage on Espial with a SPEC BUY rating and placing the company on our Focus BUY list. We do not advise clients chase the stock and place limit orders below the $1.75 range.**

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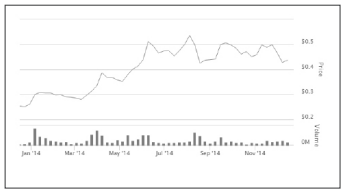

## Photon Control Inc.

**Current Price (December 24/2014): $0.46**

**PHO:TSX**

**RECOMMENDATION: SPEC BUY (FOCUS BUY)**

*Shares Outstanding*.....102,155,518
*Fully Diluted Shares Outstanding*.....112,369,518

### SELECTED QUARTERLY DATA

| Income Statement | Q3 2014 | Q3 2013 |
|---|---|---|
| Revenues | $5,144,161 | $4,609,445 |
| Net Earnings | $1,410,310 | $1,121,950 |
| EPS | $0.014 | $0.011 |
| Fully Diluted EPS | $0.013 | $0.010 |
| FCF (9 months) | $5,483,581 | $2,391,693 |
| FCF/Share (9months) | $0.054 | $0.023 |

| Balance Sheet | 30-Sep-14 | 30-Sep-13 |
|---|---|---|
| Current Assets | $17,608,818 | $12,310,782 |
| Total Assets | $21,698,808 | $17,235,842 |
| Current Liabilities | $1,263,166 | $1,329,189 |
| Long-Term Debt | $- | $- |
| Total Liabilities | $1,263,166 | $1,329,189 |
| Shareholders' Equity | $20,435,642 | $15,906,653 |

### SELECTED ANNUAL DATA

| Income Statement | 2013 | 2012 |
|---|---|---|
| Revenues | $17,256,641 | $10,500,279 |
| Net Earnings | $3,493,095 | $3,036,768 |
| EPS | $0.034 | $0.030 |
| Fully Diluted EPS | $0.031 | $0.027 |
| FCF | $4,905,380 | $1,951,852 |
| FCF/Share | $0.048 | $0.019 |

| Balance Sheet | 2013 | 2012 |
|---|---|---|
| Total Assets | $12,310,782 | $7,258,385 |
| Total Liabilities | $1,329,189 | $1,890,702 |
| Working Capital | $10,981,593 | $5,367,683 |
| Long Term Debt | $- | $- |
| Book Value | $15,906,653 | $12,334,753 |
| ROE | 22% | 25% |

## SUMMARY OF OPERATIONS

Headquartered in an ISO 9001:2008 manufacturing facility in Burnaby, British Columbia, Photon Control Inc. designs, manufactures and distributes a wide range of optical sensors and instruments to measure temperature, pressure, position, and flow. Optical sensors are immune to electro-magnetic interference and operate robustly in harsh environments. These products are used by original equipment manufacturers (OEM) as well as end-users in the Semiconductor (90% of current business), Oil and Gas, Power, Life Science, and Manufacturing industries. Photon Control's products provide high accuracy and reliability in extreme conditions and are supported by a team of experts that offer onsite installation, training, and support. Photon Control also provides engineering services for customized optical measurement systems.

While focusing on manufacturing and distribution of high-quality products, Photon Control has a strong partnership with Photon Control R&D Ltd., an engineering and research and development company, in order to enhance the effectiveness of its technical and customer support team, develop new technologies, and convert the company's intellectual property (consisting of 20 issued and 5 pending patents) into commercial products.

## MARKET/PRODUCT

Photon Control's custom engineered optical temperature and positioning sensors are integrated into the fabrication tools that are used in semiconductor manufacturing. The semiconductor manufacturing process involves multiple steps that need precise monitoring in order to maintain correct temperatures and positioning of the silicon wafers at all times.

Photon Control's approach to creating shareholder value has been to pursue OEM sales whether directly or through distributors and to investigate the market potential of products by working directly with customers in select industries to foresee their sectors' requirements. These collaborations often include commitments to conduct trials of the new products at industrial sites.

Photon Control's measurement and control instruments are intended for applications with high demand for precision, repeatable performance and reliability. The semiconductor manufacturers that are Photon Control customers set very high standards of supply chain management and Photon Control has satisfied these requirements. Photon Control supplies products to its 'Fortune 500' customer base through integrator contractors located in the USA, Europe, and Asia, and directly supplies products to three major capital equipment manufacturers located in Silicon Valley.

### RATINGS

| VALUE (TRAILING) | |
|---|---|
| EPS | $0.07 |
| P/E | 6.00 |
| PEG Ratio | 0.60 |
| P/S | 2.00 |
| P/FCF | 5.7 |
| EV/EBITDA | 8.7 |
| BV/Share | 0.20 |
| | 4.25 |

| GROWTH | |
|---|---|
| Revenues | 10% |
| FCF | 15% |
| EPS | 10% |
| | 3.50 |

| RISK/LIQUIDITY | |
|---|---|
| D/E | - |
| Current Ratio | 13.94 |
| SGR | n/a |
| | 3.50 |
| | 3.75 |

### Contact:

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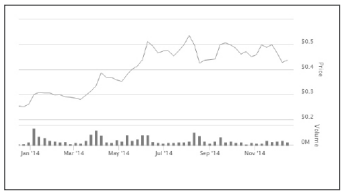


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| Long Term Debt | $- | $- |
| Book Value | $15,906,653 | $12,334,753 |
| ROE | 22% | 25% |

## FINANCIAL PERFORMANCE

During 2013, Photon Control continued to lay the foundation for creating long-term value and has demonstrated its commitment to corporate, operational and financial discipline. During the second half of 2013, Photon Control benefited from the more favourable economic and industry conditions. In the fiscal year 2013, Photon Control delivered a strong finish to a very good year achieving its best annual results on record reporting $17.3 million in product sales and $4.60 million profit before taxes. The significant increase in product sales was mainly due to accelerated levels of activity in the semiconductor market supported by the non-semiconductor product sales and the company's enhanced operational efficiency.

The significant progress achieved during fiscal 2013 made a positive impact on Photon Control's current fiscal year, securing profitability for the first three quarters of 2014. In the third quarter of 2014, Photon Control experienced an increase in all categories including sales, gross margins, profit results and sales order backlog compared to Q3 2013. In Q3 2014, Photon Control recorded product sales of $5.1 million, approximately 11% higher than product sales in Q3 2013. Photon Control's profit before taxes for Q3 2014 was $1.88 million, an increase of approximately 68% compared with $1.12 million profit before taxes for the same period in 2013. Having said this, approximately $670,000 of the pre-tax profit was due to favourable currency gains.

Product sales for the nine months ended September 30, 2014, totaled $15.0 million, approximately 35% higher compared to the same period last year. The company's profit before taxes for the nine months ended September 30, 2014, was $4.92 million, approximately 118% higher compared to the same period in 2013, surpassing the entire 2013 profit before taxes by approximately 7%. This increase in net earnings for the nine months ended September 30, 2014, was mainly due to an increase in sales of $3.90 million which resulted in an increase in gross margin of $2.74 million and an increase in other earnings (primarily foreign exchange) of $457,211.

## GROWTH STRATEGY

During 2014, Photon Control continued to identify and evaluate opportunities to enhance its operational results and to diversify its product range. The company continues to develop new sensor technologies and customized products for existing OEM customers, and is further expanding its product lines to pursue new customers in other sectors. As announced in the company's news release dated September 16, 2014, the company has received initial orders for Photon Control's customized optical measurement products from a new Original Equipment Manufacturer purchaser. The new

### RATINGS

| VALUE (TRAILING) | |
|---|---|
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| GROWTH | |
|---|---|
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| RISK/LIQUIDITY | |
|---|---|
| D/E | - |
| Current Ratio | 13.94 |
| SGR | n/a |
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| | 3.75 |

### Contact:

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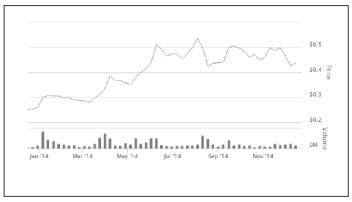


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| Long Term Debt | $- | $- |
| Book Value | $15,906,653 | $12,334,753 |
| ROE | 22% | 25% |

OEM customer is active in the semiconductor industry outside of North America. While these relationships can take time to fully develop (often 1-3 years), if executed properly, they can grow into very profitable long-term (7-10 years or longer) relationships. The company continued to implement better communication procedures with existing distributors for increasing productivity and marketing initiatives.

Management also continues to revamp its geographic expansion for Photon Control's Focus® 2.0optical gas flow meter (currently a very small percentage of sales – under 10%) and to build its distribution and support network in North America. In addition, further business development efforts for the Focus® 2.0 optical gas flow meter included sending representation to the American Gas Measurement School conference in Houston, Texas in September2014.More recently in Q4 2014, the company co-exhibited with Japanese distributor KLV Co., Ltd. at Inter-optoExhibition in Yokohama, Japan presenting Spectroscopy and Fiber Optic Temperature Sensor product lines. Photon Control's Focus® 2.0 optical gas flow meter will be represented at the Bakken Flaring Alternatives & Gas Capture conference in Denver, Colorado in December 2014.

### CASH BALANCE – POTENTIAL ACQUISTIONS

Photon Control boasts a very strong balance sheet for a company of its size. By the end of fiscal 2014 the company will have well in excess of $12 million, or close to $0.12 per share in cash. At any given time, management believes it is prudent to hold between $2-$5 million in cash on hand to give large customers the confidence that Photon Control can support their product needs long term. As such, the company has between $7-$10 million in cash on hand to invest in further product development or make a strategic acquisition. Management has stepped up its focus in this area and while we believe management will be prudent and consider only accretive acquisitions, we expect the company to be active on this front over the next 12-24 months.

### CONCLUSION

Since 2009, Photon Control has made significant progress in implementing its five-year strategy and with its record Fiscal Year 2013, posted a fifth consecutive year of profits. With a $4.2 million backlog, approximately 5% higher compared to the same period last year, heading into its Q4 and the company already posting record 9-month profitability, we expect a sixth consecutive year of profitability when the company reports 2014 results in late March or early April.

Photon Control is a solid success story that has largely flown under the radar in Canada. The company has grown revenues from just over $1 million in 2004 to what is expected to be well over $20 million in 2014 with excellent profitability.

**RATINGS**

**VALUE (TRAILING)**

| | |
|---|---|
| EPS | $0.07 |
| P/E | 6.00 |
| PEG Ratio | 0.60 |
| P/S | 2.00 |
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| | 4.25 |

**GROWTH**

| | |
|---|---|
| Revenues | 10% |
| FCF | 15% |
| EPS | 10% |
| | 3.50 |

**RISK/LIQUIDITY**

| | |
|---|---|
| D/E | - |
| Current Ratio | 13.94 |
| SGR | n/a |
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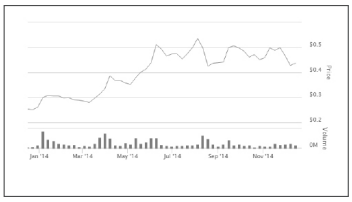


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| Working Capital | $10,981,593 | $5,367,683 |
| Long Term Debt | $- | $- |
| Book Value | $15,906,653 | $12,334,753 |
| ROE | 22% | 25% |

Having said this, the growth has not exactly been in a straight line. Due to its high exposure to the semiconductor industry, business has historically been cyclical and while we expect this to smooth out as the base of OEMs grows and via product diversification, we inevitably expect another downturn at some stage. The good news is that the company has experienced higher highs and lower lows in terms of sales and profitability overtime as it gains more customers. We expect this to continue into the future.

Based on current fundamentals which include a trailing PE cash out of under 8 and a price-to-cash flow cash out of 4.5, Photon Control appears quite cheap. The company also boasts a strong balance sheet with zero debt and a cash balance of close to $12 million, or $0.12 per share. The near-term outlook remains solid for the semi-conductor space, but we expect a contraction at some point in the next 12-24 months which would likely translate into a pullback in revenues and profitability. During a pullback on an annual basis, we would expect Photon Control to remain profitable (with quarterly fluctuations), but at a lesser rate. Following the pullback, we would expect the company to gain traction once again and begin climbing the growth ladder.

**As such, we are initiating coverage on Photon Control with a BUY rating and placing the company on our Focus BUY list. At present we recommend purchasing a HALF POSITION and would not chase the stock beyond the $0.50 range. Given its high share count, investors should not expect any large near-term gains. We expect to hold Photon Control through a 2-5 year time horizon which will see an inevitable semi-conductor downturn where we may elect to add more shares, potential acquisitions, strong cash generation and a new growth cycle.**

### RATINGS

| VALUE (TRAILING) | |
|---|---|
| EPS | $0.07 |
| P/E | 6.00 |
| PEG Ratio | 0.60 |
| P/S | 2.00 |
| P/FCF | 5.7 |
| EV/EBITDA | 8.7 |
| BV/Share | 0.20 |
| | 4.25 |

| GROWTH | |
|---|---|
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| EPS | 10% |
| | 3.50 |

| RISK/LIQUIDITY | |
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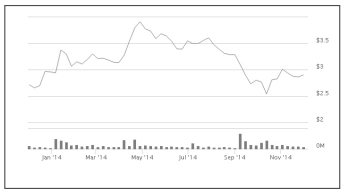


## Sandvine Corporation

**Current Price (December 4/2014): $3.02**

**SVC:TSX**

**RECOMMENDATION: BUY (FOCUS BUY)**

*Shares Outstanding*.....150,419,989
*Fully Diluted Shares Outstanding*.....160,140,663

### SELECTED QUARTERLY DATA

| Income Statement | Q3 2014 | Q3 2013 |
|---|---|---|
| Revenues | $27,897,000 | $27,183,000 |
| Net Earnings | $3,055,000 | $4,652,000 |
| EPS | $0.02 | $0.03 |
| Fully Diluted EPS | $0.02 | $0.03 |
| FCF | $4,117,700 | $5,671,000 |
| FCF/Share | $0.03 | $0.04 |

| Balance Sheet | AUG-31-2014 | NOV-30-2013 |
|---|---|---|
| Current Assets | $190,087,000 | $143,477,000 |
| Total Assets | $202,582,000 | $158,082,000 |
| Current Liabilities | $31,266,000 | $30,780,000 |
| Long-Term Debt | $- | $- |
| Total Liabilities | $32,803,000 | $32,351,000 |
| Shareholders' Equity | $169,779,000 | $125,731,000 |

### SELECTED ANNUAL DATA

| Income Statement | 2013 | 2012 |
|---|---|---|
| Revenues | $106,540,000 | $87,933,000 |
| Net Earnings | $12,883,000 | $(5,038,000) |
| EPS | $0.09 | $(0.03) |
| Fully Diluted EPS | $0.08 | $(0.03) |
| FCF | $17,506,000 | $(1,503,000) |
| FCF/Share | $0.12 | $(0.01) |

| Balance Sheet | 2013 | 2012 |
|---|---|---|
| Total Assets | $143,477,000 | $116,051,000 |
| Total Liabilities | $30,780,000 | $19,803,000 |
| Working Capital | $112,697,000 | $96,248,000 |
| Long Term Debt | $- | $- |
| Book Value | $125,731,000 | $112,100,000 |
| ROE | 10% | -4% |

## SUMMARY OF OPERATIONS

Sandvine began to develop its bandwidth management solutions in 2001. The company launched its first generation Policy Traffic Switch product in 2002. Today, Sandvine develops and markets Network Policy Control solutions for high-speed, or "broadband," Internet service providers. The company's solutions provide the tools to help service providers better understand their networks and apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, mitigate malicious traffic and/or more efficiently manage network traffic.

Sandvine currently has operations, including direct sales channels, in Canada, the United States, the United Kingdom, France, Germany, Spain, the United Arab Emirates, India, Argentina, Brazil, Hong Kong, Singapore, Japan, Israel, Mexico, Italy, Poland, Russia and Saudi Arabia. The company has approximately 539 full-time employees and maintains its corporate head office and the majority of its administration in Waterloo, Ontario. The company also has research and development operations in Bangalore, India.

## MARKET

Sandvine's target market is broadband Internet service providers worldwide, including those which offer such services through DSL, cable, fixed wireless, mobile and FTTx Internet access technologies. Within the fixed line component (DSL, cable and FTTx) of the market, the company primarily targets the top 250 operators around the world, by subscriber count, which holds more than 80% of the global subscriber base. Industry analyst reports estimate that there were 650 million fixed line broadband subscribers globally at the end of 2012.

In the wireless data market (fixed wireless and mobile), Sandvine primarily targets the top 350 service providers in the world. According to industry analysts, there were approximately 1.1 billion mobile broadband users at the end of 2012. This figure is expected to grow rapidly over the next few years with the adoption of "smart" devices.

## PRODUCTS AND SOLUTIONS

Sandvine's Network Policy Control solutions comprise a hardware platform and proprietary software modules that are typically bundled together to provide a system for broadband Internet service providers to identify specific types of traffic across their networks (for example, VoIP, online gaming or video streams). These solutions also provide the tools to help service providers apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue generating services, mitigate malicious traffic and/or more efficiently manage their network.

### RATINGS

| VALUE (TRAILING) | |
|---|---|
| EPS | $0.13 |
| P/E | 23.23 |
| PEG Ratio | 3.77 |
| P/S | 0.86 |
| P/FCF | 26.0 |
| EV/EBITDA | 8.7 |
| BV/Share | 1.13 |
| | 3.75 |

| GROWTH | |
|---|---|
| Revenues | 18.0% |
| FCF | 25.0% |
| EPS | 28.0% |
| | 4.00 |

| RISK/LIQUIDITY | |
|---|---|
| D/E | - |
| Current Ratio | 6.08 |
| SGR | n/a |
| | 4.00 |
| | 3.92 |

### Contact:

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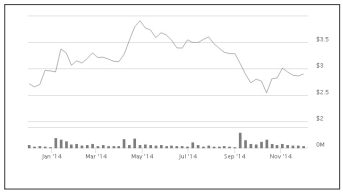


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| Long-Term Debt | $- | $- |
| Total Liabilities | $32,803,000 | $32,351,000 |
| Shareholders' Equity | $169,779,000 | $125,731,000 |

**SELECTED ANNUAL DATA**

| Income Statement | 2013 | 2012 |
|---|---|---|
| Revenues | $106,540,000 | $87,933,000 |
| Net Earnings | $12,883,000 | $(5,038,000) |
| EPS | $0.09 | $(0.03) |
| Fully Diluted EPS | $0.08 | $(0.03) |
| FCF | $17,506,000 | $(1,503,000) |
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| Working Capital | $112,697,000 | $96,248,000 |
| Long Term Debt | $- | $- |
| Book Value | $125,731,000 | $112,100,000 |
| ROE | 10% | -4% |

### Traffic Optimization

In times of congestion, a relatively small number of users and applications can consume the majority of network resources. Sandvine's Traffic Optimization solutions mitigate network congestion and ensure fairness through the optimal use of network resources.

### Service Creation

Subscribers use the Internet in different ways and to different extents. Sandvine's Service Creation solutions help service providers create new service plans that differentiate their businesses and let subscribers choose a plan that suits them the best.

### Operations Management

In order to address network issues before they affect subscribers, network operators need to mind their networks for quality trends, malicious traffic, and regulatory compliance purposes. Sandvine's Operations Management solutions can identify quality issues before subscribers do, mitigate malicious network traffic (including outbound e-mail spam), and simplify regulatory filtering compliance.

### Network Business Intelligence

In order to accurately model network operation at a business level, service providers need to combine application and subscriber-aware network statistics with data from billing and other operational systems. With unique insight and advanced analysis capabilities such as trending, predictive modeling and statistical operations, Sandvine's Network Business Intelligence solutions enable confident business decisions regarding service plans, traffic management policies and capital investments.

In addition to product revenues in the above fields, the company derives services revenues from two primary components:

• Professional Services — Sandvine's professional services organization supports customer requirements with consultation, product installation, integration and training relating to the company's products.

• Support and Software Maintenance Services — Sandvine support and software maintenance services consist of the provision of ongoing support and software maintenance services for the company's customers by way of online and telephone-based help-desk services, software patches and distribution of regularly scheduled product release updates.

### Financial Results

Sandvine's revenue for the third quarter rose 2.6% to $27.9 million from $27.18 million in the third quarter of 2013. The company's increased revenues in the three months ended August 31, 2014, as compared to the third quarter of 2013 is as a result of $2.6 million in increased service revenue

**RATINGS**

| VALUE (TRAILING) | |
|---|---|
| EPS | $0.13 |
| P/E | 23.23 |
| PEG Ratio | 3.77 |
| P/S | 0.86 |
| P/FCF | 26.0 |
| EV/EBITDA | 8.7 |
| BV/Share | 1.13 |
| | 3.75 |

| GROWTH | |
|---|---|
| Revenues | 18.0% |
| FCF | 25.0% |
| EPS | 28.0% |
| | 4.00 |

| RISK/LIQUIDITY | |
|---|---|
| D/E | - |
| Current Ratio | 6.08 |
| SGR | n/a |
| | 4.00 |
| | 3.92 |

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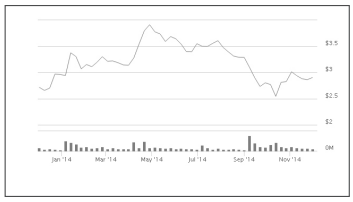
## Sandvine Corporation

**Current Price (December 4/2014): $3.02**

**SVC:TSX**

**RECOMMENDATION: BUY (FOCUS BUY)**

*Shares Outstanding*.....150,419,989
*Fully Diluted Shares Outstanding*.....160,140,663

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| EPS | $0.02 | $0.03 |
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| Long Term Debt | $- | $- |
| Book Value | $125,731,000 | $112,100,000 |
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partially offset by a decrease of $1.9 million in product revenue. Management believes that the decrease in product revenue was related to the timing of closing larger opportunities (contracts that have now closed in Q4 2014). There were certain opportunities that were expected to close in the current quarter that did not materialize as quickly as expected. Management does not believe that the decrease in product revenue in the quarter represented a change in the size of the overall market opportunity for network policy control solutions. The company's total revenues for the nine months ended August 31, 2014, were $89.2 million, an increase of $13.4 million, or 17.7%, compared to the same period last year. Sandvine's increased revenue was consistent with incremental product orders from existing customers and a net increase in support and maintenance service revenue.

The percentage breakdown of revenue generated from a particular geography or access technology will fluctuate significantly based on the origin of larger orders received during the quarter. In the current quarter, the company continued to see a strong contribution from the Wireless access technology market (49% of revenues) and the DSL access technology market (35% of revenues). The Europe, Middle East and Africa (EMEA) sales region (43% of revenue) was the most significant geographic region in the quarter.

During the quarter, the company received initial purchase orders from five new customers (Q3 2013: eight), comprised of five wireless service providers, and recognized revenue from four new customers. The value of orders received from customers during the third quarter of 2014 was greater than total revenue recognized during the quarter.

Compared to the third quarter of 2013, net income was $3.1 million, or $0.02 per share, a decrease of $1.6 million. This decrease was primarily a result of decreased Canada`s Next Generation of Jobs Fund (NGOJF) contributions ($1.0 million) and increased operating expenses primarily related to increased prototype costs ($0.7 million), partially offset by improved gross margins in the current quarter. For the nine months ended August 31, 2014, net income was $14.9 million, or $0.10 per share, an increase of $7.7 million compared to the same period last year. The increase is primarily the result of increased revenue and improved gross margins, partially offset by decreased NGOJF contributions ($2.2 million) and increased operating expenses primarily a result of increased variable compensation expense ($1.4 million) as compared to the same period last year.

### GROWTH STRATEGY

Sandvine believes that it is at the forefront of an emerging market, and that investing in research, development, and sales and marketing activities are critical to increasing revenues in future periods and maximizing long-term success. The company continues to enhance and invest in all of its

**RATINGS**

**VALUE (TRAILING)**

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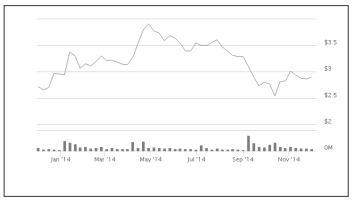

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| ROE | 10% | -4% |

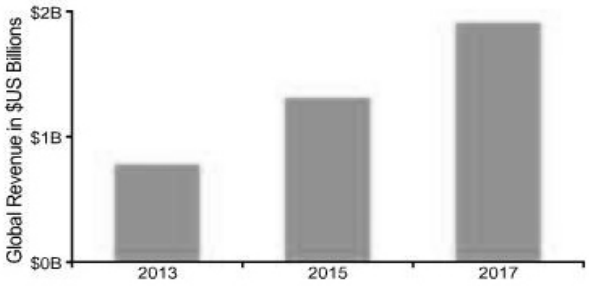
solutions sets to maintain a leadership position, and is particularly focused on its Service Creation and Network Business Intelligence product portfolios as well as next generation hardware products. Sandvine believes that the market will increasingly require innovative solutions that help service providers understand network trends in order to create innovative new service tiers that better meet subscribers' needs.

The company has been increasing its sales and marketing efforts in strategic locations globally. Management believes that it has built strong products in each solution area and needs to continue to increase sales coverage to leverage these product investments into increased sales globally, both to new customers and through accelerated expansion orders from its large existing customer base. While operating expense levels fluctuate between fiscal quarters, overall the company currently expects that operating expenses for 2014 will be materially similar to 2013 levels, excluding the impact of government assistance and investment tax credits, and will be sufficient to support revenue growth in 2014

Sandvine anticipates that throughout fiscal 2014 it will continue to selectively assess acquisition opportunities to strengthen its market position and augment its growth. With over $150 million, or approximately $1.00 per share, in cash and zero debt, the company is well positioned to capitalize on potential accretive acquisitions. The evaluation of potential acquisitions will include whether the target company has technology that will extend Sandvine's core capabilities in network policy control, has a complementary customer base, has prospective growth rates commensurate with those of the company, and has a compatible culture.

In 2013, Infonetics Research estimated that service providers spent $728 million on Deep Packet Inspection (DPI) solutions – strong market for Sandvine. The firm further estimated that operators would spend more than $2 billion annually by 2018. Therefore, there is a demand perceived for DPI solutions which has been emanating from service providers and the public sector.

**The service provider DPI market is approaching the $1B mark and on track to reach nearly $2B by 2017**




© Infonetics Research, *Service Provider Deep Packet Inspection Products Market Size, Share, and Forecasts*, Oct. 2013

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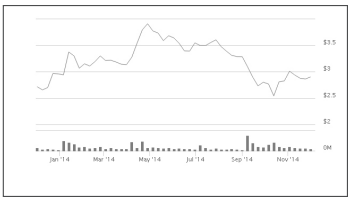


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There are also estimates available that the U.S. government would be spending $1.8 billion on DPI solutions by 2018. Based on customer acquisition capabilities, Sandvine has emerged a market leader ahead of Allot Communication Ltd. (ALLT:NASD) and Cisco Systems (CSCO:NASD) targeting the largest 250 service providers and 350 wireless providers. Despite its leadership position, Sandvine continues to trade at a discount on a cash flow and EV/EBITDA basis.

### PERCEIVED THREAT – the concept of net neutrality.

At the heart of Sandvine`s business is a technology know as Deep Packet Inspection (DPI) (and filtering), which enables advanced network management, user service, and security functions as well as internet data mining, eavesdropping, and internet censorship. Although DPI technology has been used for Internet management for many years, some advocates of net neutrality fear that the technology may be used anticompetitively or to reduce the openness of the Internet. Net neutrality (also network neutrality or Internet neutrality) is the principle that Internet service providers and governments should treat all data on the Internet equally, not discriminating or charging differentially by user, content, site, platform, application, type of attached equipment, or mode of communication.

People and organizations concerned about privacy or network neutrality find inspection of the content layers of the Internet protocol to be offensive, saying for example "the 'Net was built on open access and non-discrimination of packets!" Critics of network neutrality rules, meanwhile, call them "a solution in search of a problem" and say that net neutrality rules would reduce incentives to upgrade networks and launch next-generation network services.

Sandvine is on record as being a company that is pro net neutrality and believes the company is well positioned to continue to prosper in a world which mandates net neutrality. Despite this, the company`s segment, particularly over the past 18-months, has traded at a discount (in our opinion) to other communications and network software/hardware providers. We view this as a long-term opportunity.

### CONCLUSION

Sandvine has been on our Monitor List for a couple years now and we view the recent weakness in the company`s shares as a long-term entry point. The revenue short-fall that led to the company`s Q3 2014 earnings warning was largely a function of timing and nothing more. The $12 million of orders announced since quarter end included a delayed large deal that would have not necessitated management to pre-warn on the quarterly shortfall.

**RATINGS**

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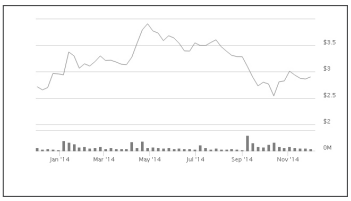


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| Book Value | $125,731,000 | $112,100,000 |
| ROE | 10% | -4% |

Heading into 2015, there has been expectations that operating expenses could increase as there is increasing pressure to bolster sales and support of large customers. Operating expenses, on a normalized basis, have been little changed over the past two years. We believe that while operating expenses could increase, the negativity surrounding the magnitude of the increase has been overblown and will be largely offset by the size of the orders associated with potentially higher expenses. We continue to see Sandvine posting 15-20% organic growth heading into 2015 and the company is well positioned with $150 million, or approximately $1.00 per share, in cash to execute on a couple of growth acquisitions.

For Sandvine, growth is driven by the need by service providers (wired and wireless) to create new revenue streams. Sandvine's solutions enable operators to create new revenue models to better match revenue per sub to cost per sub, a key priority for carriers. Sandvine's platform is also now available fully virtualized which makes it accessible for smaller operators and creates opportunities for operators to sell network intelligence products to enterprise customers. In other words, the addressable market is expanding.

From a valuation perspective, Sandvine trades at a discount to peers, despite its solid free cash flow generation, excellent balance sheet, and solid growth potential over the next 5-years. While the bugaboo of net neutrality hovers over the company we see a long-term opportunity. It is true that the company can post lumpy earnings on a quarterly basis; it has posted eight consecutive quarters of positive earnings and solid 2-year earnings growth. The consensus estimate for Q4 2014 earnings is in the range of $0.04 per share giving the company $0.14 in 2014 earnings. Consensus calls for 28% growth in earnings in 2015 to the $0.18 level. Based on this figure, Sandvine trades at 16.77 times next year`s earnings which is moderately attractive given its growth. However, when we strip out the $1.00 per share in cash, the company`s PE multiple is quickly reduced to 11.22 which appears very attractive given the growth. This does not factor in any accretive acquisitions. On a peer comparison basis, Sandvine trades at around 7 times Enterprise Value to EBITDA versus peer Allot Communications (ALLT:NASD) which is at 11.5times. We see Sandvine`s near to mid-term fair value in the range of $4.00.

**As such, we are initiating coverage on Sandvine with a BUY rating and placing the company on our Focus BUY list. We are not looking to chase the stock and advise establishing positions under the $3.15 range over the next month. We expect to hold the stock for 2-5 years as its industry evolves and the company deploys its war chest of cash to increase shareholder value over the long term.**

**RATINGS**

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# Current Coverage Briefs

Below we have provided brief updates and current ratings on the 5 companies that are in our current coverage and appear in our 2015 Cash Rich, Profitable Small-Cap Report.

**High Arctic Energy Services Inc. (HWO:TSX)**
**Current Recommendation: BUY (Focus BUY List)**
**Market Cap in Cash: 22.5%**

Industry: Oil & Gas Services – International/Canada
Current Price: $3.66
Recommended: July 2013
Recommendation Price: $2.21
Market Cap: $204,094,966
Shares Outstanding: 55,763,652
Fully Diluted: 57,321,852

High Arctic Energy is an international oil & gas services company with operations in both Papua New Guinea (PNG) and Western Canada. High Arctic's substantial operation in Papua New Guinea is comprised of contract drilling, specialized well completion services and a rentals business, which includes rig matting, camps and drilling support equipment. The company owns and operates the only heli-portable hydraulic workover rig in PNG and is contracted to operate up to three heli-portable drilling rigs owned by a large oil and gas company. HWO typically provides services in PNG under term contracts ranging from 6 months to 3 years. The Canadian operation is focused on the provision of snubbing services and the supply of nitrogen to a large number of oil and natural gas exploration and production companies operating in Western Canada.

**FINANCIAL HIGHLIGHTS & KEY AREAS OF GROWTH**

HWO was recommended as a BUY (Focus BUY) in July 2013 when the stock traded at the $2.21 level. The company has been maintained at this rating since the recommendation.

Today, on the heels of another solid set of quarterly financial results, we review the Q3 2014 numbers, the company's near and mid-term outlook, and our current rating on the stock.

**Q3 2014 HIGHLIGHTS**

• Revenues increased by 14% for the third quarter of 2014 to $41.3 million from $36.3 million in Q3 2013.
• Adjusted EBITDA was $9.8 million for Q3 2014 versus $9.8 million in Q3 2013. For the nine months ended September 30, 2014, adjusted EBITDA increased by 24% to $36.0 million from $29.0 million in Q3 2013.
• On July 28, 2014, HWO completed the acquisition of two heli-portable drilling rigs. The company has signed a drilling services contract with a large oil and gas operator in PNG to utilize one of the rigs. The two-year term commences with the spud of a first well, which is expected to occur late in Q1 2015.
• On July 2, 2014, High Arctic welcomed a new CEO and President on October 1, 2014; both individuals bring significant international drilling experience to HWO.
• HWO announced that its Board of Directors has approved a 10% increase in the monthly dividend amount. The new monthly amount is $0.0165 per share, or $0.198 per annum. The company paid dividends of $2.4 million during Q3 2014. HWO continues to maintain a strong balance sheet and has a trailing annual dividend payout ratio of 21%.

**CONCLUSION**

Early this month in the heart of the oil sell-off, HWO announced that it had signed an important Drilling Services Agreement with InterOil Corporation for a second heli-portable drilling rig in Papua New Guinea. High Arctic has agreed to provide its Rig 116, along with a 100 person camp, for a firm contract term of two years. The two-year term commences once the rig has been accepted at the first drilling location in PNG. The contract is projected to deliver annualized revenue of approximately US$30 million once the drilling operations commence. It is anticipated that the rig will begin operations in the third quarter of 2014.

This is the second US$30 million two-year contract the company has announced this year. These two contracts totaling US$60 million annually are set to be a significant source of growth for High Arctic which does around $160 million in annualized revenues from existing equipment.

This week, the company reported it has approved a capital budget of $36 million for 2015 to complete previously announced capital spending projects and to address maintenance and incremental growth opportunities next year. The budget includes $31.8 million of capital expenditures which consists primarily of the previously announced upgrading and commissioning of Rigs 115 and 116. Growth spending in 2015 will also include rental equipment and ancillary snubbing equipment for the Canadian operations to address specific customer needs. Budgeted maintenance capital expenditures in 2015 of $4.2 million will ensure that the equipment in both Papua New Guinea and Canada continue to operate at the highest industry standards.

Management stated that the long-term demand for clean energy in Asia will in part be fulfilled by LNG imports. Papua New Guinea with its large natural gas reserves, and operating LNG export facility, is well positioned to help fulfill this demand. High Arctic will benefit from this opportunity as a substantial portion of the company's revenue is earned operating under fixed term contracts in PNG. Management continues to evaluate other growth opportunities in both PNG and Canada, and recognizes that this capital budget provides flexibility to increase HWO's capital spending throughout the year if expansion opportunities materialize.

HWO has a strong balance sheet and growing cash flows from operations. The budgeted expenditures will be funded from cash on hand and from operating cash flows generated in 2015. The deployment of Rig 115 and Rig 116 remains on schedule.


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From a fundamental perspective, High Arctic remains attractively valued. The company trades at approximately 6 times trailing earnings. High Arctic remains at a low 4.06 times 2014 expected EBITDA (3.01 times trailing EBITDA after removing the $0.85 per share in cash). Our base case estimate for adjusted EBITDA in 2015 is $50 million, or approximately $0.91 per share, which leaves High Arctic at 4.02 times this figure which is low compared to peers particularly considering the company is looking for growth in 2015, whereas most energy service stocks are facing declines.

**We maintain our positive outlook on the stock and see the weakness in related energy stock as an opportunity – BUY (Focus BUY).**

**C-COM Satellite Systems Inc. (CMI:TSX-V)**
**Current Recommendation: BUY (Focus BUY)**
**Market Cap in Cash: 33.3%**

Industry: Technology - Communications Equipment
Current Price: $1.14
Recommended: September 2011
Recommendation Price: $0.41
SELL HALF: $0.80 (March 2012)
Market Cap: $40,789,670
Shares Outstanding: 35,780,413
Fully Diluted: 36,936,919

Founded in 1997 and publicly traded as of 2000, C-COM provides mobile auto-deploying satellite-based technology for the delivery of two-way high-speed Internet, VoIP and Video services into vehicles and movable structures. C-COM has developed a unique proprietary Mobile auto-deploying (iNetVu®) antenna that allows the delivery of high-speed satellite based Internet services into vehicles virtually anywhere one can drive. The iNetVu® Mobile antenna has also been adapted to be deployable from transportable platforms and has been adapted to be Flyaway and Airline Checkable. The company's satellite-based products and services deliver high-quality, cost-effective solutions for both fixed and mobile applications throughout the world.

## FINANCIAL HIGHLIGHTS

C-COM Satellite Systems Inc. was recommended in September 2011 when the stock traded at the $0.41 level. Powered by strong numbers in its base business and extraordinary orders as a result of the 2011 Japanese earthquake, 2011 was a record year for the company and pushed the shares to significant gains. In March of 2012, with the stock approaching closer to near-term fair value for our base business scenario, and in light of the fact we believed it would be very difficult for C-COM to match the prior years' historically strong quarterly numbers, we elected to shift our near-term rating to SELL-HALF with the stock at the $0.80 range. In July 2012, with the stock trading at the $0.59 level, we upgraded once again to a BUY (Focus BUY). In our October 2013 update, we maintained our near-term rating at HOLD and shifted our long-term rating to HOLD with the stock trading at $1.99. Today, we review the company's solid Q2 2014 results and our rating.

C-COM recently reported revenues for Q2 2014 declined 22% to $3.75 million from $4.79 million in the same period of the prior year. While this year's second quarter results were lower than last year's, historically this quarter of the company's fiscal year is slow. Additionally, Q2 of 2013 was always going to be a tough comparison as it was the second largest in terms of revenues in the company's history. The company generated $782,188, or $0.022 per share, in earnings down from $966,997, or $0.027 per share, in Q2 of the prior year. The continued profitability during the second quarter of 2014 was largely attributable to repeat orders from the company's large base of loyal customers worldwide.

The company also announced the payment of an eligible dividend in the amount of $0.0125 per common share payable on August 21, 2014, to all shareholders of record as of August 7, 2014. Based on its closing price of $1.45 per share, this quarterly dividend would provide a yield of 3.4% on an annualized basis. This dividend is part of C-COM's ongoing practice of returning value to its shareholders through a quarterly dividend.

## CONCLUSION

Q2 2014 marked C-COM's 40th profitable quarter out of the last 41 quarters. As expected, the numbers were lower year-over-year, but up smartly from Q1 2014. Long term, the company's dividend policy has been an excellent development for shareholders. It has allowed investors to establish a small or reasonable position in the stock (which is fairly illiquid) and not worry too much about the daily or monthly fluctuations as we are now getting "paid to wait" for the company to add cash, grow, develop new products and drive the stock at a reasonable pace year-over-year. Quarterly cash flow can fluctuate, but with a solid dividend (which was just under 7% at the time of our upgrade to BUY), a strong cash position and zero debt, we have been comfortable waiting for organic business growth or the potential of a takeover bid long term.

We stress that C-COM is a micro-cap situation – a segment of our research that offers strong potential, but a higher degree of risk due to size and liquidity, particularly in the near term. As such, it is not for all clients. As we stated in our original report, C-COM has provided us with a unique mix of value and potential growth within this segment. Without the value component, we would not consider C-COM. For us, the value lies in its technology and leadership position and in the company's balance sheet. The cash was not generated through an IPO, it has been built up through internal cash flow.

With the increased cash position, dividend and expectation for moderate growth moving forward, we upgrade our base case value for the stock over the next year. The company has trailing earnings of $0.08 per share and with the $0.40 in cash per share on hand, gives our base case valuation of $1.20 at present ($0.40 + ($0.08* 10)). We stress that this is our base case valuation for the stock near term and it is conservative, given the 10 times earnings multiple (which is near the historical average). We stated that the stock

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could move higher if the market was to afford the company multiples of 12 and earnings were to show growth once again, for example ($0.45e + ($0.09* 12)) for a fair value in the range of $1.53. In the event of a takeover bid, the shares would likely show a premium to this.

**Near-Term and Long-Term we have a BUY (Focus BUY) rating on the stock, but believe that new clients could enter half positions under the $1.20 level – patiently and collect the 4.5% dividend. There is no reason to bid the stock up as the growth element is missing near term.**

**Cipher Pharmaceuticals Inc. (CPH:TSX)**
**Current Recommendation: BUY (Focus BUY List)**
**Market Cap in Cash: 9.7%**

Industry: Specialty Pharmaceutical
Recommended: February 2014
Recommendation Price: $7.03
Current Price: $18.10
Market Cap: $487,686,400
Shares Outstanding: 25,637,000
Fully Diluted: 26,944,000

Cipher Pharmaceuticals is a growing specialty pharmaceutical company with three commercial products and a fourth product in development. The company focuses on pharmaceutical products which are improved formulations of successful drugs that are currently marketed. Cipher will acquire the license of a product, manage the required clinical development and regulatory approval process, and then either out license the product to a marketing partner, or in Canada, market the product itself. Cipher's core capabilities are in clinical and regulatory affairs, product licensing, supply chain management, and marketing and sales. Since the company was founded in 2000, it has achieved final regulatory approval in the U.S. and Canada for all three of its current products and completed six marketing partnerships. Cipher's lead product, Absorica (named Epuris in Canada), is an isotretinoin used in the treatment of severe nodular acne.

## FINANCIAL HIGHLIGHTS

Cipher was recommended in February of 2014, with the company's shares trading at $7.03 and updated several times year-to-date in 2014 as a BUY (Focus BUY) with the last two recommendation being in August at the $8.89 level and at the end of October at a Long-Term BUY with the company's shares trading at the $13.49 level, giving clients ample time to establish full positions.

### Q3 2014 Highlights

On October 29, 2014, Cipher reported its financial results for the three-months ended June 30, 2014.

- Total revenue of $7.2 million, an increase of 28% compared with $5.6 million in Q3 2013.
- EBITDA rose 37% to $5.2 million versus $3.8 million in Q3 2013.
- Net income was $8.7 million, or $0.34 per basic share, compared with net income of $3.4 million, or $0.14 per basic share, in Q3 2013. Net income for Q3 2014 included the recognition of a net deferred tax asset of $4.0 million.
- Cash balance increased to $47.6 million at quarter end compared to $39.7 million as at June 30, 2014, and $24.2 million as at December 31, 2013.
- Revenue from Absorica® was $4.8 million, up from $4.5 million in Q3 2013.
- Completed isotretinoin distribution and supply agreement with Ranbaxy for Brazil, the largest isotretinoin market in Latin America.

## CONCLUSION

Broadly speaking, we were pleased with the overall performance of Cipher's portfolio in the third quarter as all products showed increased year-over-year sales. The company's lead product, Absorica, maintained market share, although the revenue contribution reflected the seasonal slowdown in the isotretinoin market during this period. Historically, this seasonal slow period is followed by a more robust fourth quarter. We also note the year-over-year increases in results from less impactful products including Lipofen and Epuris, which showed solid growth.

Cipher is actively looking to acquire new late-stage or commercial-stage products to add to its portfolio. With the company now generating strong profitability, we expect them to continue to bolster their already pristine balance sheet which consists of over $47.6 million, or $1.85 per share in cash, and no debt. We view the company as very well positioned to pursue new acquisitions and reinvest capital back into the business for future growth over the next year.

In late November, Cipher announced that its common shares have been approved for listing and trading on the NASDAQ Global Market under the trading ticker symbol "CPHR." The added exposure has likely helped the company attain valuations more in line with its peers.

As we stated in our last update, it is more difficult to find growth and value at a reasonable price in the biotech or pharma segments at present. Given the fact the S&P 500 Biotech index was recently trading at just under 100 times next years' expected earnings, it is not difficult to see why (historically PE multiples for the S&P average around 16). Based on trailing earnings and free cash flow, the valuations on Cipher remains somewhat appealing relative to peers and becomes more attractive when we factor in the strength of the balance sheet. If we strip the approximate $1.85 per share in cash out of the company, Cipher trades at around 23 times our estimated earnings of $0.69 per share in 2014.

**Cipher is not without its risks (namely product concentration and the patent litigation against Watson) but the upside potential is significant over the next 2 to 5 years. As such, we maintain our near-term HOLD on the**


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**stock, for those clients with no positions our long-term rating (looking 2-5 years out) is BUY and we maintain the company's place on our Focus BUY list. New clients could consider establishing HALF POSITIONS in the near term given the 155% plus gains we have seen already year-to-date.**

**Enghouse Systems Limited (ESL:TSX)**
**Current Recommendation: BUY (Focus BUY List)**
**Market Cap in Cash: 7.7%**

Industry: Technology - Software
Recommended: February 2011
Recommendation Price: $8.35
Current Price: $42.05
Market Cap: $1,096,411,700
Shares Outstanding: 26,074,000
Fully Diluted: 26,829,000

Enghouse Systems Limited develops enterprise software solutions for a variety of vertical markets. The company is organized around two business segments: the Interactive Management Group [IMG], the former Syntellect Division, (81.21% of 2013 revenue) and the Asset Management Group [AMG] (18.79% of 2013 revenue). The Interactive Management Group serves the customer service market segment through the provision of Interactive Voice Response (IVR) systems and speech/voice recognition solutions, as well as an advanced contact center platform that manages multichannel customer interactions. Its customers include insurance companies, banks, utilities, as well as high technology, health care, and hospitality companies. The Asset Management Group provides visual-based software solutions for the design and management of complex network infrastructures to telecommunications, utilities, public and private transportation, and oil and gas companies.

## FINANCIAL HIGHLIGHTS

Enghouse was recommended in February of 2011, with the company's shares trading at $8.35. Most recently, we updated the stock in September 2013 maintaining our Near-Term rating at HOLD and our Long-Term rating at HOLD, with the stock remaining on our Focus BUY List in the $26.50 range. Since the original recommendation, the stock has performed very well over the last 3 and a half years. After recently hitting new all time highs in the $38 range, the stock closed this past week at the $36.46 level. Today, we review the company's 2014 financial results and our current rating.

On December 18, 2014, the company reported revenue increased by 22% to $220.0 million for the fiscal year compared to revenue of $179.9 million in the previous fiscal year, resulting in another record year for the company. Income from operating activities was $52.1 million compared to $40.7 million last year, an increase of 28%. Net income for the fiscal year was $29.7 million, or $1.11 per diluted share, compared to $24.3 million, or $0.92 per diluted share, in the prior year. Adjusted EBITDA for the fiscal year was $56.0 million, or $2.09 per diluted share, compared to $44.9 million, or $1.69 per diluted share, last year, an increase of 24%.

Increased revenue in the quarter reflects incremental revenue from acquisitions, including Voxtron NV, acquired October 3, 2014, Jinny Software Limited, acquired August 5, 2014 and the favourable impact of foreign exchange. Revenue includes license revenue of $19.1 million, an increase of 27% over last year and $32.2 million from hosted and maintenance services, an increase of 33%. For the fiscal year, license revenue was $71.9 million compared to $58.9 million, while hosted and maintenance services revenue grew by 25% to $115.0 million.

## CONCLUSION

Once again, we were pleased with Enghouse's 2014 results which basically met consensus on a Revenue and Adjusted EBITDA basis.

The real story with Enghouse, as it has been since day one, is the strong free cash flow generation and growth via smart accretive acquisitions. Cash on hand at the end of 2014 was $84.9 million after the payment of approximately $45.0 million related to acquisitions and $9.4 million to dividends. The company generated cash flows from operating activities of $47.6 million in the year compared to $32.4 million in 2013, an increase of 47%. Enghouse completed five acquisitions during the fiscal year, expanded the scale and product portfolio of its Asset Management Group, entered new geographic regions and strengthened its presence in key markets. Enghouse remains committed to seeking accretive acquisitions, to continue to grow its market share and increase shareholder value. Enghouse still sees an active pipeline of opportunities, and attractive pricing in the $5-$50 million range.

At first glance, with a trailing P/Adjusted EBITDA of just above 20, Enghouse does not appear cheap. Indeed, with the share price up over 340% since our original recommendation 4 years ago (excluding dividends), the stock is no longer what we would consider a bargain. In fact, in the near term, we believe the company is at its fair value in its current range. Much of the multiple expansions we have seen has been due to consistent growth (proven track record from management) and has been assisted by a buoyant overall market. When we dig a little deeper, we find that the company's consensus 2015 EBITDA estimate is in the range of $2.67. If we strip out the $3.15 per share in cash and just look at the base business, the forward looking P/EBITDA is a more reasonable 14.55 (cash out). This remains a discount to what many analysts consider comparable public companies with similar names like Descartes at 17x and Constellation at 17x, but roughly equivalent to Open Text at 13.5x. Having said this, on a cash flow basis, the stock no longer trades at a discount to its peers.

The market has finally caught-up to the Enghouse story and is willing to pay a premium for the strong free cash flow and earnings power going forward. Enghouse trades

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at a relatively reasonable ratio to 2015 expected EBITDA, but again is not cheap. For those investors with a 2-3 year plus outlook, the company continues to have the ability to beat market returns given its track record and growth rate.

**We maintain our near-term rating at HOLD and our long-term rating at HOLD, as the stock is closer to fairly valued at present. The company remains on our Focus BUY list.**

**Note: If there was to be a significant market correction, 10-20%, Enghouse would be one of the companies we would not hesitate to buy on dips as it is cashed-up, produces very strong cash flow, is a dividend grower and is very prudently managed.**

**Titan Logix Corp. (TSX-V:TLA)**
**Current Recommendation: BUY (Focus BUY List)**
**Market Cap in Cash: 38.6%**

Industry: Fluid Management Technology - Oil & Gas
Current Price: $1.19
Recommended: January 2013
Recommendation Price: $0.64
Market Cap: $30,855,607
Shares Outstanding: 25,929,082
Fully Diluted: 27,114,082

Founded in 1979, Titan Logix Corp. specializes in R&D, manufacturing and marketing of advanced technology fluid management solutions, particularly for use in mobile tanker applications. The company's Guided Wave Radar (GWR) solutions are currently used in the oil and gas (95% plus of current revenues), waste collection and aviation industries. These technologies and their derivatives under development are applicable to a variety of additional markets which Titan plans to expand into at the appropriate time. A common practice in many of these markets is the use of manual methods for measurement and control. However, due to safety considerations, the rising cost of many fluids, awareness and concerns about the environment and technological advancements enabling better operational efficiencies, they are experiencing a continued demand for their advanced technology products. Titan continues to pursue expansion into other markets with the goal of becoming the global market share leader in advanced mobile-tank fluid level measurement, control and asset management solutions.

## RECENT FINANCIALS

Revenues for fiscal 2014 increased 4% to $17.19 million from $16.49 million in the previous year. This increase is primarily a result of increased market penetration due to the company's ongoing deep commitment to customer service/support and the introduction of new products, mitigating the impact of a market-wide slowdown in oil industry tanker construction. Titan's sales outside of Canada, primarily to the U.S., were $8.57 million in fiscal 2014, an increase of 8% from sales of $7.91 million in fiscal 2013. This increase is primarily a result of increased market penetration in the U.S. due to the combination of customer recognition of the TD80's superior quality and performance, along with the company's superior customer service and support. Sales outside of Canada increased to 50% of Titan's total sales in fiscal 2014 compared to 48% in fiscal 2013. Sales in Canada for fiscal 2014 were $8.62 million compared to $8.58 million in fiscal 2013.

The gross profit in fiscal 2014 was $8.77 million (51%) compared to $8.68 million (53%) in fiscal 2013. Gross margin percentage decreased due to a reduction in production efficiencies, a write-down of inventory related to the voluntary FGI 351 recall, and increased expenses related to service operations. Returns associated with the product recall, announced in January 2014 to address a potential safety concern, have been immaterial and the company does not expect a material impact from possible returns in future periods.

Net earnings and comprehensive income for fiscal 2014 were $2.61 million, or $0.10 per diluted share, compared to $3.24 million, or $0.12 per diluted share, for fiscal 2013. The decrease is tied to the lower gross margin percentage as well as increased expenses including professional fees related to the product recall, net engineering costs and amortization of product development costs associated with commercialization of new product.

As at August 31, 2014 working capital was $15.01 million compared to the August 31, 2013 year-end balance of $12.18 million. Cash, cash equivalents and short-term investments were $11.85 million at the end of fiscal 2014 compared to $9.26 million on August 31, 2013. Titan does not have any debt except for trade payables, accrued liabilities and finance lease obligations. Titan continues to maintain a strong balance sheet and a good cash position.

**New Tanker Construction:** An October 2014 report by the Americas Commercial Transportation Research Co. reporting on liquid tankers states that after good order rates for the last three months, the recent declines in oil prices will test the resolve of the energy sector with regards to short-term equipment investment. Twelve month rolling orders stood at 7,962 for all types of liquid tanker trailers at the end of September 2014 compared to 6,010 as of September 2013, an increase of 32%. However, most of this increase was in refined fuels and chemical trailers as most major OEMs have reduced production of crude oil trailers. Titan's focus on market diversification and the push for more retrofit installations mitigates the impact of this decline in crude oil tanker construction.

## CONCLUSION

We were pleased with Titan's 2015 year-end results and in particular the Q4 2014 numbers which showed a return to growth. Titan continues to be profitable for seventeen consecutive quarters. >From a valuation perspective, the company maintains attractive metrics including a trailing PE of 11.9 or 7.3 subtracting out the $0.46 per share in cash.

Up until a month ago, heading into 2015, Titan was expecting solid growth in 2015 from new products including the company's advanced fluid level gauging system for refined fuel tankers (fleet fueling and fuel transport markets), the release of which is now scheduled for mid-fiscal 2015


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However, the collapse in crude prices near term will likely put pressure on new tanker construction and impede growth. The long-term outlook remains strong given the excellent balance sheet, low valuations, technology leadership and potential for accretive acquisitions.

**As such, we maintain our BUY (Focus BUY) recommendation on Titan with a long-term outlook over the next 2-3 years. We see the company's as attractive long-term in their current range but see no need to chase the stock.**

| Disclosure | | | | | |
|---|---|---|---|---|---|
| | Stock Holding | | | Other | |
| Companies | KeyStone | KeyStone Employees | Related Companies | Investment Banking Client | Related Company Business Relationship |
| C-COM Satellite Systems Inc. | NO | YES | NO | NO | NO |
| Cipher Pharmaceuticals Inc. | NO | YES | NO | NO | NO |
| Enghouse Systems Limited | NO | YES | NO | NO | NO |
| Espial Group Inc. | YES | NO | NO | NO | NO |
| High Arctic Energy Services Inc. | YES | YES | NO | NO | NO |
| Merus Labs International Inc. | YES | NO | NO | NO | NO |
| Photon Controls Inc | NO | NO | NO | NO | NO |
| Sandvine Corporation | YES | NO | NO | NO | NO |
| Titan Logix Corp. | YES | YES | NO | NO | NO |

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