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Analysts' Ideas of the Week – West Mountain Receives Green Signal from Jereh's Board

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Sid Rajeev, B.Tech, MBA, CFA
Head of Research

West Mountain Receives Green Signal from Jereh's Board

West Mountain Capital, (FRC Rating: BUY; Fair Value: $0.70; Risk: 4) is in the business of thermal treatment of soil, sludge and other waste streams. They are currently focused on penetrating China's contaminated soil, oily sludge and industrial sludge treatment markets.

On March 6, 2014, WMT announced that Jereh Energy Services Corporation's board of directors have approved their investment in WMT. WMT had initially announced their plans to collaborate with Jereh in November 2013.

Jereh is wholly owned by Yantai Jereh Oilfield Services Group, a public company listed on the Shenzhen Stock Exchange (Shenzhen: 002353, Market Capitalization: US$6.84 billion). Jereh has subsidiaries in Houston, Calgary, UAE, Kazakhstan and Indonesia. The company is in the business of providing oilfield engineering, technology services and environmental services.

According to the agreement, Jereh will subscribe for:

- US$4 million common shares of WMT @ $0.27 per share, and

- US$3 million in secured convertible bonds @ 6.5%, due in 2 years (conversion price - $0.32 per share in the first year, and $0.50 per share in the second year)

The transaction is expected to close on or before April 15, 2014. In addition to the investment, Jereh and WMT intend to form a joint venture to pursue remediation of hazardous waste from the Chinese oil and gas industry.

We believe the agreement with Jereh is a major milestone for WMT for two reasons – 1) immediate access to capital will allow WMT to roll out their growth plans fairly quickly, and 2) Jereh's experience in the Chinese oil and gas industry will help WMT in their business development, and to attract clients. Jereh also has the capability to manufacture equipment/units for WMT. WMT is currently using a different entity for their manufacturing needs.

WMT's revenues in the first nine months of 2013 (ended September 30, 2013) were $1.53 million, which came from the processing of 16,132 tonnes. Our revenue forecast for 2013 is $2.06 million. Net loss in the nine month period in 2013 was $1.53 million (EPS: -$0.04). Our net loss forecast for 2013 is $2.08 million (EPS:-$0.05). Watch out for our update report on the company when the company announces their 2013 results (expected by late April 2014).

Daniel Iwata, BA, Dip. Fin. Mgmt.
Equity Research Associate

Input Capital - Thoughts on February update

In February, Input Capital (TSX-V: INP) received 1,403 tonnes of canola, which is a large increase over the 684 tonnes received in January. However, the canola industry continues to be faced with significant transportation delays. At the end of February, Input had received 4,721 tonnes of the 18,297 tonnes due to them (26% of total). In their most recent quarterly earnings call, management of Input noted that they estimated the majority of canola to be received in February and March, prior to the company's year end. We believe, at the current pace of deliveries, the majority of canola may not be delivered until the next fiscal year.

We feel that the excessive time to deliver the canola is an extraordinary event. This is evident by The Bank of Montreal (TSX: BMO) offering leniency on loans to farmers affected by the delays. BMO has extended more flexible repayment terms to farmers on a case by case basis. The Government of Canada has also stepped in, instituting minimum shipments of grain by the train companies. They have ordered 500,000 metric tonnes of grain to be moved a week, which is double the current volume. Grain sellers may still face problems in the short term, as the train companies have 4 weeks to meet the required minimums.

A highlight of the release was the average price per tonne of canola Input received. On the total canola received as of February 28, 2014, the company's average realized price was $466. Canola was trading in the $350-$400 range from mid-December until the end of February. Management notes that early in the season they had locked in canola pricing.

Input reported that no new streaming contracts were signed in February. In January, the company deployed $6.08 million in 3 streaming contracts. We feel that the lack of new streaming contracts in February is something to monitor, as the seeding season is only a few months away (generally starts in early May).

We feel that the grain situation is an anomaly that is impacting everyone in the industry and we expect a majority of canola deliveries to be pushed into the next fiscal year. The company has a high amount of cash, and will need to deploy large amounts of capital over the coming months as seeding of the next canola harvest is set to start soon.

Pooneh Ruintan, MEcon. Msc. Finance
Equity Research Associate

Real estate market in Fort McMurray- Wood Buffalo

Fort McMurray, Alberta has one of Western Canada's hottest real estate investment markets in Canada. Fort McMurray is an urban service area located north of Edmonton (within 6 hours drive). Fort McMurray is part of the Regional District (RD) of Wood Buffalo and contains approximately 74% of the population in the RD of Wood Buffalo.

The key trends driving the real estate market in Fort McMurray-Wood Buffalo include:

- Fort McMurray has experienced 125% population growth between 2000 and 2012. The population in 2012 (116,407) is projected to grow to about 196,566 in 2030. The average age of the population in 2012 was 32.2.
- Wood buffalo in the only region in Alberta that experienced high employment growth of 12% during the recession period. The current unemployment rate in the region is 3.5%, versus Alberta- 4.5%, and Canada -7.1%.
- It is estimated that Wood Buffalo contributes between 6%-8% of Canada's total GDP.
- The Wood Buffalo region contains the richest deposits of the Athabasca oil sands. The oil sands

contain the second largest oil reserves in the world, second only to Saudi Arabia. The oil and gas industry is the largest employer in the RD of Wood Buffalo, and accounts for approximately 48% of the region's employment and 96% of investments.

- The region currently produces 1.6-1.8 million barrels oil per day, expected to increase to 7 million barrels per day by 2030. Going forward, it is expected that economic conditions and employment in the region will improve, as more than 160 new oil sands projects has been announced.
- Income levels in the Wood Buffalo region are well above the average for Alberta. In 2014, it is projected that the average household income was 95% higher than the projected national average. Wood Buffalo officials estimate that average household income is $177,000 per year; this compares with Edmonton's average household income at $99,000 and Calgary's $122,000 per year.
- The latest Canadian Mortgage and Housing Corporation (CMHC) numbers forecast that the average selling price of a residential dwelling in 2014 will be $635,000. This figure is about 63% more than the average selling price in Alberta ($387,400).
- Also according to CMHC, the provincial average rent for a two-bedroom apartment is $1,158, but rent in Wood Buffalo averages $2,162 (the average rental rate increased about 6.1% in 2013). It should be noted that demands for rental unites arise mainly from temporary/ migrant workers in the area and not from tourism.
- The average vacancy rates in 2013 in Wood Buffalo were 5.4% compared to the Alberta vacancy rate of 1.6%. There are two main factors which explain the high vacancy rate. i) large demand from mobile workers to live in work camps outside Fort McMurray and ii) high and unaffordable rental rates, which force several households to rent a room or even basement suites.

As a result, I believe, due to a large number of temporary workers and high rents, there will be high demand for short term rental developments in the region. At FRC, we cover a company, The PRISM Group, which invests in these types of real estate in Fort McMurray-Wood Buffalo.

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