Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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May 22, 2015

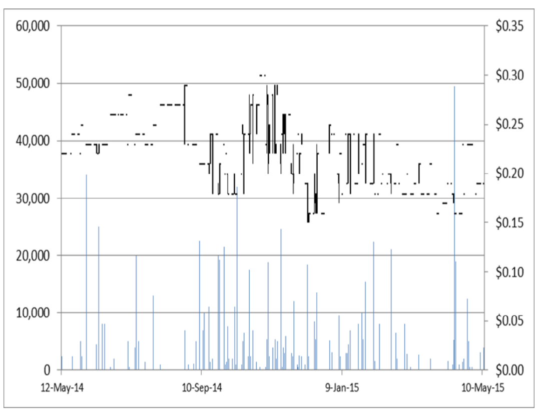
West Mountain Environmental Corp. (TSXV: WMT) – Record Processing in Q4-2014

Sector/Industry: Environmental Services **www.westmountaincapital.com**

Market Data (as of May 22, 2015)

Current Price	C$0.205
Fair Value	**C$0.53**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$0.15– C$0.30
Shares O/S	53.97 mm
Market Cap	C$11.06 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.8x
YoY Return	-14.6%
YoY TSX-V	-28.1%

*see back of report for rating and risk definitions



Highlights

- In Q4-2014 (quarter ended December 31, 2014), West Mountain Environmental Corp. ("company", "WMT") processed 10,303 tonnes of soil (highest to date), up from 5,830 tonnes in Q3-2014. The company processed 25,086 tonnes in 2014 versus 22,001 tonnes in 2013.
- Processing increased primarily because WMT commissioned two new TPS (thermal phase separation) units in December 2014. The total capacity of the three TPS systems deployed for the project is currently 110,000 tonnes per year.
- 2014 revenues were $1.31 million and exceeded our $1.14 million forecast. Net loss in FY2014 was $3.62 million (EPS: -$0.07). Our forecast was a net loss of $3.48 million (EPS: -$0.06).
- The Changquing Industrial Sludge Treatment project is expected to be operational in the next few weeks.
- At the end of FY2014, WMT had $3.45 million in cash. Working capital and the current ratio were $1.88 million and 1.9x, respectively.
- In January 2015, China's Ministry of Environmental Protection released a draft of a plan to improve standards for controlling land pollution in the country. The draft proposes to include more chemicals to the list of those monitored and put stricter requirement on pollutant levels.
- **We maintain WMT in our list of top picks.**

Key Financial Data (FYE - December 31) (C $)	2012	2013	2014	2015E	2016E
Cash	162,499	497,144	3,452,133	183,070	79,317
Working Capital	(547,920)	(2,197,017)	1,879,480	(5,389,703)	(4,153,273)
Total Assets	4,728,586	5,399,451	10,023,374	6,507,723	8,711,974
Revenues	257,528	1,962,926	1,313,490	2,875,000	4,262,500
Net Income	(1,839,813)	(2,338,338)	(3,621,041)	(2,798,793)	(1,643,962)
EPS	-0.05	-0.06	-0.07	-0.05	-0.03

West Mountain Capital is in the business of thermal treatment of soil, sludge and other waste streams. Currently, the company's focus is on penetrating China's contaminated soil, oily sludge and industrial sludge treatment markets.

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Record Processing in Q4

In Q4-2014, the company processed 10,303 tonnes of soil, up from 5,830 tonnes in Q3-2014, and 5,869 tonnes in Q4-2013. Processing increased as WMT commissioned two new TPS units (details discussed later) in December 2014, and as the quarter had less unscheduled downtime compared to previous quarters. The following table shows the processing rate since WMT commenced operations in Q4-2012.

	Tonnes	$ / t
Q4-2012	1,259	$84.35
Q1-2013	5,207	$85.61
Q2-2013	5,672	$101.51
Q3-2013	5,253	$97.43
Q4-2013	5,869	$73.20
Q1-2014	3,930	$48.64
Q2-2014	5,023	$43.93
Q3-2014	5,830	$45.32
Q4-2014	10,303	$53.99
Total	**48,346**	

** Reported revenues per tonne dropped in recent quarters as the company negotiated to remove utility costs from its pricing (discussed in previous reports).*

The current operations are part of a contract with Hangzhou Dadi Environmental Protection Engineering Co. Ltd. ("Dadi"). In July 2014, the company completed Phase 1, which consisted of the processing of 33,000 tonnes of pesticide-contaminated soil. Phase 1 operations had commenced in December 2012. Phase II operations (which is for a minimum of 70,000 tonnes of contaminated soil) commenced in July 2014. WMT's partner, Jereh Energy Services (Shenzhen: 002353, Market Capitalization: US$6.12 billion), financed and manufactured two TPS units, with an annual treatment capacity of approximately 40,000 tonnes each. The units were commissioned in December 2014, and contributed to the strong QOQ processing rate growth in Q4-2014.

The total capacity of the three TPS systems deployed for the project is currently 110,000 tonnes per year. Dadi's contract for the entire project involves the remediation of approximately 160,000 tonnes of soil, implying the company and Jereh may be able to attain a Phase III contract for the remaining 57,000 tonnes ($2.85 million in revenues @ $50/t).

Jereh now holds 15.47 million WMT shares (29% of the total outstanding shares), and US$3 million of 6.5% p.a. secured convertible bonds issued by WMT. According to management, WMT pays Jereh a fixed fee (undisclosed) for manufacturing and operating the two new TPS systems.

Status Update on Other Projects

Oily Sludge Treatment in Zhoushan with Nahai: - This project continues to get delayed. Management had initially expected this project to be operational by July 2014. As per the most recent MD&A (Management Discussion and Analysis), due to delays in material handling equipment delivery, management now expects this project to be operational by Q2-2015. The facility is designed to process 50,000 tonnes per year of oily sludge. WMT has a 30% interest in the joint venture. Management indicated that the joint venture expects to process approximately 14,000 – 15,000 tonnes in 2015.

Industrial Sludge Treatment, a sub-contract agreement with Huafu Environmental Engineering Company, in Changqing – At the time of our previous report in November 2014, Huafu had obtained the necessary approvals from the Shanxi Environmental Protection Bureau to bring the facility operational. Huafu has been contracted by a major client in Changqing to build and operate a waste sludge treatment facility partially using WMT's TPS technology. WMT has a subcontract agreement with Huafu. WMT is currently in negotiations with Huafu to confirm the terms and conditions of their contract. Management expects this project to be operational in the next few weeks. According to management, if the demonstration is successful, the company may be able to expand to six additional locations in Shanxi province.

In the previous MD&A, management had indicated that they are evaluating opportunities in Jiangsu, Zhejiang, Sichuan and Guandong in China, and with two major potential customers in South America and the Middle East. The company has yet to provide any update on these initiatives.

Market Update

In January 2015, the Ministry of Environmental Protection released a draft of a plan to improve standards for controlling land pollution in China. **The draft proposes to include more chemicals to the list of those monitored and put stricter requirement on pollutant levels.** According to a reporter at Caixin (a Beijing based media group), a land pollution survey released in April 2014 indicated that 16.1% of China' s land contains excessive levels of pollutants, mainly from arsenic, cadmium, chrome, lead and other heavy metals released by industries. Approximately 20% of the tested farmland was found to be heavily polluted. China has only 7% of the world's farmable land, but has 22% of the world population, so it is essential that its farmland is preserved. New regulations / standards are highly encouraging for WMT. **Now that they have already demonstrated the efficiency of TPS, through the Dadi contract, we believe WMT has established a good platform to be one of the key players in soil treatment in China.**

Record Quarterly Revenues

The company processed 25,086 tonnes of soil in FY2014, versus 22,001 tonnes in FY2013. 2014 revenues were $1.31 million and exceeded our $1.14 million forecast. However, 2014 revenues were lower than FY2013 revenues as they revised their revenue recognition methodology. The company negotiated with Dadi in 2014 to remove utility costs from its pricing (explained in detail in our previous reports). The following table shows segmented revenues and gross margins.

	2012	2013	2014
China			
Revenues	$105,300	$1,844,243	$1,232,225
COGS (excl amortization)	$87,920	$897,816	$1,127,551
Gross Margin	17%	51%	8%
Canada			
Revenues	$152,228	$118,693	$81,265
COGS (excl amortization)	$296,223	$732,812	$374,807
Gross Margin	-95%	-517%	-361%
Total Revenues	**$257,528**	**$1,962,936**	**$1,313,490**
COGS (excl amortization)	$384,143	$1,630,628	$1,502,358
Gross Margin	-49%	17%	-14%

Approximately $1.23 million, or 94% of the total revenues, came from China. The company continues to run small projects in Canada at its Wolseley facility in Saskatchewan. However operations continue to be non-profitable. **Management states they are maintaining Canadian operations, despite being non-profitable, because they believe they have the potential to expand operations in North America.**

Gross margins of the operations in China were just 8% in FY2014. In the first nine months, the company had reported 30%. Q4 margins were -18%. Although the company did not provide any reason for the negative margins, we suspect the additional costs may be related to Jereh's fees. We hope to get more clarity in the upcoming quarters.

Revenue forecasts

Revenue forecasts – We have slightly lowered our 2015 revenue estimate from $3.02 million to $2.88 million due to the delay in the Changquing project. We are introducing our 2016 revenue forecast in this report, which is $4.26 million.

Margins

The following table shows the company's margins.

Margins	2012	2013	2014	Environmental and Facilities Services Industry
Gross	-49.17%	16.93%	-14.38%	21.70%
EBITDA	-476.93%	-70.36%	-199.28%	13.70%
EBIT	-684.73%	-106.86%	-257.91%	10.10%
EBT	-703.61%	-116.71%	-311.58%	
Net	-714.41%	-119.13%	-275.68%	2.20%

Expenses / Sales	2012	2013	2014
G&A	413.72%	87.29%	167.09%
Stock Option Compensation	14.05%	0.00%	17.81%
Total	**427.77%**	**87.29%**	**184.91%**

General & Administrative ("G&A") expenses, excluding stock based compensation, interest and loss on investments, were $2.19 million in FY2014, up 28% YOY. The increase was primarily because of one-time legal and consulting fees related to the transaction with Jereh.

EBITDA was negative $2.62 million in FY2014, versus negative $1.38 million in FY2013. Net losses in FY2014 were $3.62 million (EPS: -$0.07) versus $2.34 million (EPS: -$0.06) in FY2013. Our forecast was a net loss of $3.48 million (EPS: -$0.06).

EPS forecasts - Our revised forecast for 2015 is a net loss of $2.80 million (EPS: -$0.05) versus our previous estimate of $2.24 million (EPS: -$0.04). Our 2016 estimate is a net loss of $1.64 million (EPS: -$0.03).

Free cash flows (FCF) in FY2014 were negative $1.89 million versus negative $1.00 million in the previous year.

Summary of Cash Flows	2012	2013	2014
Cash Flows from Operations	(1,032,619)	(1,468,380)	(412,769)
Cash Flows from Investing	(928,026)	(1,000,619)	(1,891,698)
Cash Flows from Financing	334,499	2,788,689	5,108,410
Net Change	(1,626,146)	319,690	2,803,943
Free Cash Flows	(1,945,195)	(2,465,755)	(2,301,409)
CAPEX	(912,576)	(997,375)	(1,888,640)

Balance Sheet

At the end of FY2014, WMT had $3.45 million in cash. Working capital and the current ratio were $1.88 million and 1.9x, respectively (see table below).

Liquidity Analysis	2012	2013	2014	Industry
Cash	$162,499	$497,144	$3,452,133	
Working Capital	(547,920)	-$2,197,017	$1,879,480	
Current Ratio	0.37	0.23	1.86	1.50
Debt / Capital	10.6%	62.8%	59.4%	13.2%
EBIT Interest Coverage Ratio	(36.3)	(10.8)	(4.8)	2.4

Debt to capital was 59% at the end of the year. Debt on the balance sheet comprised of the following:

- **10% p.a. convertible unsecured subordinated debentures for $0.79 million**; issued in July 2013, and maturing in July 2015 (the "Maturity Date"). The conversion price is $0.32 per share. Insiders of the company hold $0.67 million of these debentures. The company is in a good cash position to pay out these debentures upon maturity.
- **$3 million in 6.5% p.a. convertible secured bond held by Jereh**; issued in March 2014, and maturing in March 2016. The conversion price is $0.32 per share until March 28, 2015, and $0.50 per share until March 28, 2016.

The company has the following unused credit facilities:

- a $500,000 demand revolving loan (prime rate plus 1.50% p.a.)
- a $500,000 demand-revolving loan (prime rate plus 1.25% p.a.)
- a capital loan of $1.50 million (prime rate plus 1.50% p.a.)
- a $1 million demand revolving line

Stock Options

The company has 3.13 million stock options, with a weighted average exercise price of $0.26 per share, and 2.47 million warrants with an exercise price of $0.32 per share outstanding. None of the options or warrants are currently in the money.

Valuation & Rating

Our Discounted Cash Flow (DCF) valuation dropped from $0.56 per share to $0.53 per share as we dropped our near-term EPS forecasts. We maintain our BUY rating and risk 4 rating.

Risks

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

- Due to the end of the regulatory deadline for the removal of PCB soil stockpiles, Canada's PCB soil treatment market is slow, and we do not expect any significant revenues from this market in the near future.
- Regulations requiring environmental protection/cleanup are key for the company's long-term growth.
- Old incineration techniques have been the most popular methods for treatment of contaminated soil in China, and it is more cost effective compared to TPS.
- Although WMT has three strategic agreements in China, the company is still new to the market.
- WMT's license to use TPS technology expires in 2019.
- Access to capital and share dilution.

Appendix

STATEMENTS OF OPERATIONS (in C$)	2012	2013	2014	2015E	2016E
Sales	257,528	1,962,926	1,313,490	2,875,000	4,262,500
COGS	384,143	1,630,628	1,502,359	2,178,557	2,731,875
Gross Profit	**(126,615)**	**332,298**	**(188,869)**	**696,443**	**1,530,625**
Expenses					
G&A	1,065,439	1,713,363	2,194,750	2,304,488	2,477,324
Stock-based compensation	36,187		233,969	143,750	213,125
Bad Debt					
EBITDA	**(1,228,241)**	**(1,381,065)**	**(2,617,588)**	**(1,751,795)**	**(1,159,824)**
Amortization	535,126	716,427	769,984	805,998	433,763
EBIT	**(1,763,367)**	**(2,097,492)**	**(3,387,572)**	**(2,557,793)**	**(1,593,587)**
Interest & Bank Charges	48,634	193,481	704,999	241,000	50,375
EBT	**(1,812,001)**	**(2,290,973)**	**(4,092,571)**	**(2,798,793)**	**(1,643,962)**
Exchange rate and others	(27,812)	(77,865)	446,530		
Gain from sales of the assets					
EBT	**(1,839,813)**	**(2,368,838)**	**(3,646,041)**	**(2,798,793)**	**(1,643,962)**
Discontinued operations, net of income taxes					
Income Taxes	-	(30,500)	(25,000)	-	-
Net Earnings for the period	**(1,839,813)**	**(2,338,338)**	**(3,621,041)**	**(2,798,793)**	**(1,643,962)**
EPS	(0.05)	(0.06)	(0.07)	(0.05)	(0.03)

BALANCE SHEETS (in C$)	2012	2013	2014	2015E	2016E
Assets					
Cash and cash equivalents	162,499	497,144	3,452,133	183,070	79,317
Cash held by Joint venture			-	-	-
Accounts receivable	115,178	161,248	595,145	290,457	430,635
Income tax receivable	-	-	-	-	-
Assets related to discontinued operations	-	-	-	-	-
Prepaid Expenses and deposits	41,199	14,512	18,542	18,404	27,285
Current Assets	**318,876**	**672,904**	**4,065,820**	**491,931**	**537,236**
Decommissioning Funds	376,163	379,406	382,464	382,464	382,464
Property Plan and Equipment + Others	4,007,003	4,222,717	3,746,799	3,810,157	5,974,223
Intangible Asset	26,544	124,424	1,828,291	1,823,171	1,818,051
Total Assets	**4,728,586**	**5,399,451**	**10,023,374**	**6,507,723**	**8,711,974**
Liabilities & Shareholders' Equity					
Bank loan	405,647	2,428,678	-	1,500,000	3,250,000
Accounts Payables & Accrued Liabilities	436,807	430,230	1,155,418	1,102,797	1,440,509
Deferred Revenue			332,000		
Convertible debentures			698,922	3,278,837	-
Current Portion of Obligations Under Capital Lease	24,342	11,013	-		
Current Liabilities	**866,796**	**2,869,921**	**2,186,340**	**5,881,634**	**4,690,509**
Obligations under capital lease	11,013	-			
Deferred Revenue			1,268,987		
Convertible debentures		587,189	3,527,915		-
Asset retirement obligation	150,471	150,471	150,471	150,471	150,471
Shareholder's Equity					
Share Capital	7,452,298	7,452,298	11,740,383	11,981,383	16,807,595
Contributed surplus	714,518	1,144,420	1,575,167	1,718,917	1,932,042
Deficit	(4,466,510)	(6,804,848)	(10,425,889)	(13,224,682)	(14,868,643)
Total Liabilities & Shareholders' Equity	**4,728,586**	**5,399,451**	**10,023,374**	**6,507,723**	**8,711,974**

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STATEMENTS OF CASH FLOWS (in C$)	2012	2013	2014	2015E	2016E
Operating Activities					
Net earnings for the period	(1,839,813)	(2,338,338)	(3,621,041)	(2,798,793)	(1,643,962)
Items not involving cash					
Asset retirement obligation					
Amortization	532,947	845,143	769,984	805,998	433,763
Stock-based compensation	36,187	-	233,969	143,750	213,125
Gain or Loss on embedded derivative		47,725	(490,522)		
Deferred income tax		(49,500)	(25,000)		
Accretion expense – Debentures			831,593	241,000	50,375
	(1,270,679)	**(1,494,970)**	**(2,301,017)**	**(1,608,045)**	**(946,699)**
Accounts receivable		(34,695)	(433,897)	304,688	(140,177)
Income tax recoverable					
Prepaid deposits		26,687	(4,030)	138	(8,882)
Accounts payable and accrued liabilities		15,598	725,188	(52,621)	337,713
Deferred revenues			1,600,987	(1,600,987)	-
Income tax payable		19,000			
Changes in non-cash operating working capital	238,060	26,590	1,888,248	(1,348,782)	188,654
Cash prvided by (used in) operating activities	**(1,032,619)**	**(1,468,380)**	**(412,769)**	**(2,956,827)**	**(758,045)**
Cash from (used in) operations	**(1,032,619)**	**(1,468,380)**	**(412,769)**	**(2,956,827)**	**(758,045)**
Financing activities					
Repayment of long-term debt					
Proceeds from bank loan	375,647	2,023,031	(2,428,678)	1,500,000	1,750,000
Payment of capital lease obligations	(41,148)	(24,342)	(11,013)		
Proceeds from long-term debt					
Proceeds (repayment) of debentures - net		790,000	3,309,600	(948,000)	(3,503,000)
Common share and excersice of stock options	-		4,238,501		5,000,000
Cash provided by (used in) financing activities	**334,499**	**2,788,689**	**5,108,410**	**552,000**	**3,247,000**
Investing activities					
Increase in restricted cash and others	(15,450)	(3,244)	(3,058)		
Cash Advanced to Join Venture		(683,289)			
Purchase of capital assets	(912,576)	(194,086)	(110,617)	(864,236)	(2,592,708)
Purchase of license					
Others		(120,000)	(1,778,023)		
Cash used in investing activities	**(928,026)**	**(1,000,619)**	**(1,891,698)**	**(864,236)**	**(2,592,708)**
Cash provided by investing activities- disc operations					
Cash provided by (used in) investing activities	**(928,026)**	**(1,000,619)**	**(1,891,698)**	**(864,236)**	**(2,592,708)**
Increase (decrease) in cash	(1,626,146)	319,690	2,803,943	(3,269,063)	(103,754)
Cash beginning of period	1,788,645	162,499	497,144	3,452,133	183,070
FOREX		14,955	151,046		
Cash end of period	**162,499**	**497,144**	**3,452,133**	**183,070**	**79,317**

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.