

January 7, 2020

AIR CARGO

# Drone Delivery Canada Corp.

## The Future Is Here

Unless otherwise denoted, all figures shown in C\$

Recommendation: **Buy (S)**

Target Price: **\$1.50**

### Company Statistics:

Stock Symbol: **FLT - TSXV**

Price: **\$0.95**

Share Outstanding:

Basic: **176.2 MM**

Fully Diluted: **176.2 MM**

Management: **22.8 MM**

Market Cap: **\$167.4 MM**

Market Float: **\$145.7 MM**

Net Debt: **\$(13.1) MM**

Average Daily Trading Volume: **271,779**

High – Low (52-Week): **\$1.74 - \$0.62**

### Company Description:

Founded in 2014, Drone Delivery Canada (“DDC”) is a drone air cargo operator that has developed a platform capable of operating drones remotely or Beyond Visual Line of Sight (BVLOS). DDC is seeking to use its fleet of drones and software to deliver goods faster and at a much lower cost than traditional methods.

**On Cusp of Commercialization:** 2019 was a transition period for Drone Delivery Canada, shifting from proof of concept to commercialization. As part of the process, DDC signed several customers, secured a commercial agreement with Air Canada, and opened its state-of-the-art commercial operations centre in Vaughan, ON. With all this completed, Management expects its first revenue flight to occur in Q1/20.

**Targeting Low Hanging Fruit:** A portion of DDC’s customer base is remote communities, many of which are First Nations and have limited access to traditional transportation. DDC is uniquely positioned to win business from incumbent operators that are dramatically more expensive and less reliable. Management has identified 1,000 communities, of which it believes a 20% penetration rate is achievable in the next 3-5 years, implying a \$500 MM revenue opportunity. Moose Cree First Nations is the first northern community to sign a contract with DDC.

**Partnership with Air Canada Fueling Growth:** Air Canada and DDC signed a 10-year partnership agreement in 2019 through which Air Canada will market DDC to customers covering up to 150,000 routes in Canada. While this partnership is still in the early innings, three customers have been secured.

**Initiating Coverage with a Buy (S) and \$1.50 Target:** Like any pre-revenue Company, DDC is not without its risks. However, the Company’s first-mover advantage in Canada, cabotage restrictions and a strong value proposition, make us willing to bet on this horse. We are initiating coverage with a Buy (S) rating and a \$1.50 one-year target based on our strong growth forecast.

**Disclosure statements located on pages 33 – 37 of this report**

Fiscal YE Dec 31	2018A	2019E	2020E	2021E	2022E
Total Revenue	-	-	4,430	24,013	53,244
Adj.EBITDA	(11,173)	(9,286)	(12,071)	1,501	10,975
Adj. EPS	\$(0.12)	\$(0.08)	\$(0.05)	\$(0.00)	\$0.03

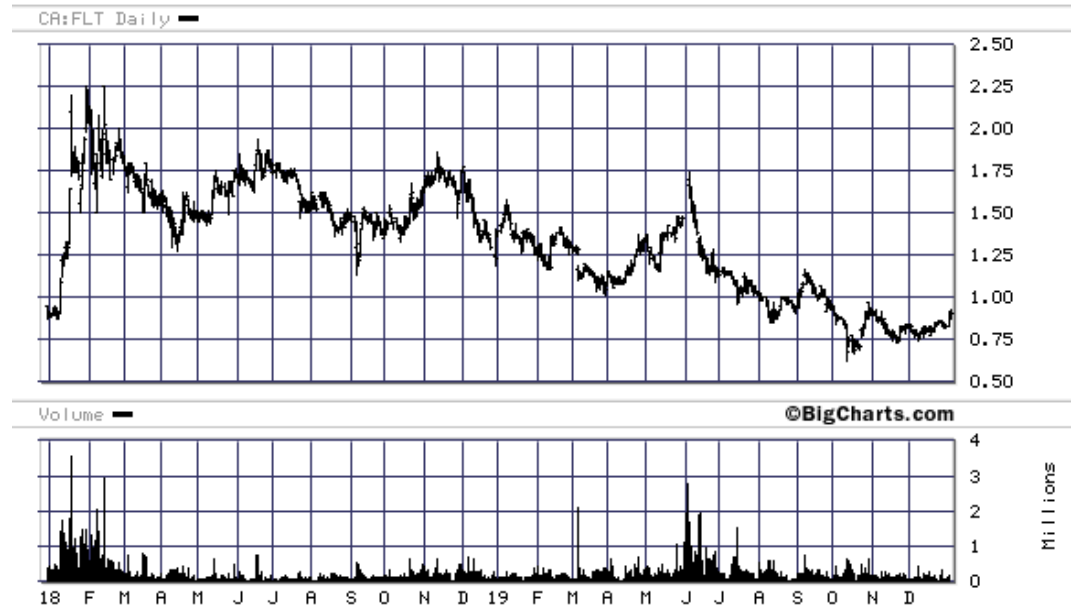
# Investment Highlights

## Who Is Drone Delivery Canada?

Founded in 2014, Drone Delivery Canada (“DDC”) is a drone air cargo operator that has developed a platform capable of operating drones remotely or Beyond Visual Line of Sight (BVLOS). By co-operating with Government agencies, DDC is on the verge of flying its first revenue flight. There is currently no formal framework in place for BVLOS operations in both Canada and the United States and the framework is unfolding daily.

Figure 1

Price Chart



Source: BigCharts.com (January 6, 2020)

## Air Canada Partnership Fueling Growth

In June 2019, Air Canada (“AC”) (Buy Rating; \$65.00 Target) and DDC signed a partnership agreement through which AC would market DDC to customers covering up to 150,000 routes in Canada. Under the agreement, AC receives revenue on a commission basis, which we believe is 10-15% of sales. The initial agreement is for 10 years with an option to extend for an additional 5 years. While this partnership is still in the early innings, three customers have already been signed: 1) Vision Profile Extrusions; 2) DSV Canada, and 3) Edmonton Regional Airport Authority. In our view, with AC by DDC’s side, the Company can secure almost 400 routes over the next 5 years. In the long-run, it is conceivable that AC takes an ownership stake in DDC, like AC’s 9.9% stake in ♦Chorus Aviation (Buy Rating; \$10.25 Target). In addition to the AC partnership, DDC has signed non-exclusive agreements with resellers that cover approximately 20 countries outside of North America, such as Australia and New Zealand.

♦ During the past twelve months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for Chorus Aviation Inc.

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**Servicing Remote Communities, A Clear Opportunity**

A portion of DDC's customer base is remote communities that often have limited access to traditional transportation. DDC is uniquely positioned to win business from incumbent operators that are dramatically more expensive and less accessible i.e. helicopters or taxi boats. DDC secured its first remote community contract with the Moose Cree First Nations for \$2.5 MM, which should commence in Q1/20. Management has identified 1,000 similar opportunities, of which it believes a 20% penetration rate is reasonable in three to five years, implying that the revenue opportunity alone from remote communities is \$500 MM/year.

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**Larger Drones Can Unlock New Customers**

While only DDC's smallest drone (4.4 kgs of capacity) has received regulatory compliance, larger drones are on the horizon. It is our understanding that its Condor drone, capable of carrying up to 400 lbs of cargo, will be approved by Transport Canada by the end of 2020 or early 2021, and a drone capable of hauling 3,000 lbs for 1,500 km is in development. We believe larger drones will open the floodgates to new customers and industries that require time-sensitive deliveries at a reasonable price, such as Mining, Healthcare, and Oil and Gas.

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**Regulatory Environment Creates A Barrier to Entry**

Similar to the Canadian Air Cargo market, we believe cabotage restrictions will apply, preventing well-capitalized US competitors from entering the Canadian market. On top of cabotage rules, the Government of Canada has limited BVLOS testing to four companies (Canada Post, DDC, Canadian UAVs and ING Robotic Aviation), of which, DDC was the only company to test the delivery of food and medical services. The other companies were focused on pipeline and infrastructure surveillance.

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**Initiating Coverage With A Buy (S) Rating And A \$1.50 12-Month Target**

We are initiating coverage with a \$1.50 one-year target based on our strong growth forecast and an 11.0x multiple to our 2024 EBITDA estimate, which is then discounted 15% per year. Our valuation is backstopped by our DCF, which yields a \$1.52 one-year price target. Our initial investment recommendation is Buy (S) given the 57.9% one-year implied return to our target and the inherent risks associated with the execution of DDC's business plan.

# Company Overview

## The DDC Story

Founded in 2014, Drone Delivery Canada (“DDC”) is a drone air cargo operator that has developed a platform capable of operating drones remotely or Beyond Visual Line of Sight (BVLOS). DDC is seeking to use its fleet of drones and software under a SaaS model to deliver goods faster and at a much lower cost than traditional methods.

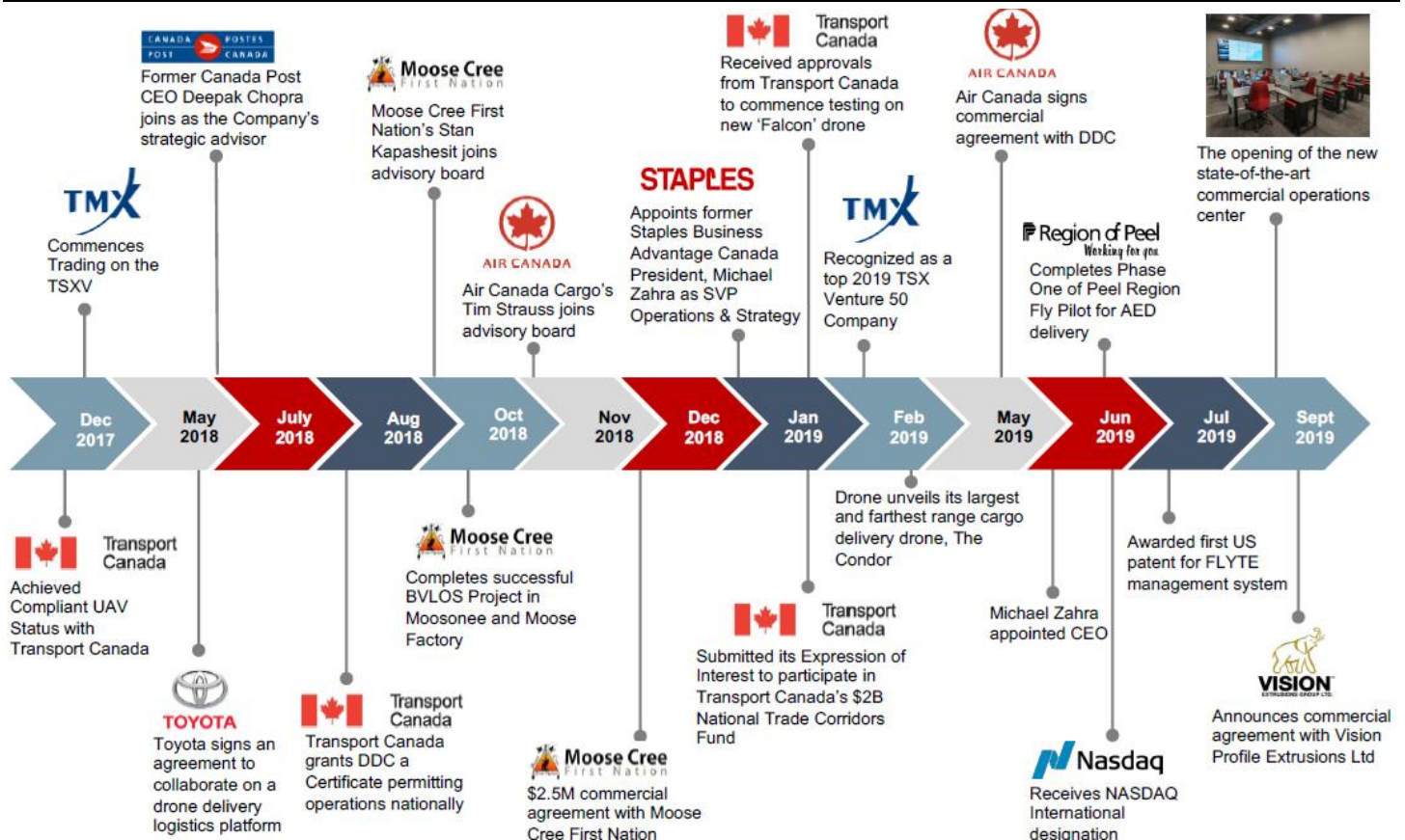
Since inception, DDC has worked together with regulatory bodies to help frame the legislation surrounding commercial drone use. DDC is one of four industry members that received permission from Transport Canada to test BVLOS flying. Of these organizations, DDC was the only operator to explore the use of drones for the safe delivery of food and medical services. In aggregate, DDC has completed over 10,000 test flights.

By way of an RTO in June 2016, DDC began trading on the CSE under the ticker FLT. Concurrently, the company completed a private placement for \$2.6 MM at \$0.14/share. Since then, DDC has completed three equity financings for an aggregate of ~\$35 MM. The Company has also migrated to the TSX Venture and continues to trade under the ticker FLT.

With the Company migrating from proof of concept to commercialization (see Figure 2) DDC signed several new customers in 2019, secured a commercial agreement with Air Canada, and opened its state-of-the-art commercial operations centre in Vaughan. DDC’s first revenue flight is expected to occur in Q1/20.

Figure 2

DDC Timeline – Road to Commercialization



Source: Company Reports

## FLYTE Platform

FLYTE is DDC's software that handles all aspects of an unmanned aerial vehicle ("UAV") and is also a drone logistics platform capable of scheduling, routing and compliance. The UAV side of the software includes operational guidance, route planning, geo-fencing, alerts, telemetry, maintenance logs and full preventative maintenance scheduling and tracking. DDC has patented the management system, processes and function of operating drones for delivery, with the United States Patent Office as of July 17, 2019. DDC also has several patents pending, which Management expects to receive clarity on in 2020.

Through its software, DDC can manage and monitor its drones from a centralized command centre, meaning that DDC can operate the drones remotely. DDC's new 16,000 sq. ft. the operational facility, which was completed in 2019, houses its mission control centre capable of hosting 25 drone operators.

While regulations have not been finalized, management believes each drone operator can monitor up to 50 UAVs implying that the facility can handle up to 1,250 routes. Based on Management's guidance of \$10-20K per month per route, we estimate that the operation centre could generate \$125-250 MM in revenue before a new facility needs to be constructed, providing ample runway.

The company's complete system can be installed on any airframe, making the company drone manufacturer agnostic. DDC's hardware installed on airframes includes proprietary redundant communications via cellular, satellite, and private RF frequency bands.

Figure 3

DDC's Commercial Operations Centre



Source: Company Reports



## These Are Not Your Everyday Drones

The Company currently has four drones in its fleet that are manufactured by third parties. The drones and their capabilities are as follows:

**Sparrow:** The Sparrow is Canada's first compliant cargo delivery drone, receiving certification from Transport Canada in 2017. The Sparrow's range is 20-30 km and can operate up to 65 km/h while carrying a payload up to 4.4 kg. The drone is suitable for letters, small parcels, medical tests, medicine, and emergency cases. All DDC's recent contract wins are for the Sparrow.

**Robin:** The Robin is the larger brother of the Sparrow, as it based on the same design blueprint. The Robin's range is 60-70 km and can operate up to 65 km/h while carrying a payload up to 11.3 kg. DDC received a Special Flight Operations Certificate (SFOC) to begin testing the Drone on August 3, 2018. Based on discussions with Management, the Robin should receive compliance from Transport Canada in early 2020. Like the Sparrow, the Robin is suitable for letters, small parcels, medical tests, medicine, and emergency cases due to its payload restrictions.

**Falcon:** DDC received approval on January 31, 2019, to begin testing the Falcon in Southern Ontario. The Falcon can carry 60 lbs. of cargo and can travel 60km at 50 km/h. Unlike the Sparrow and Robin, the Falcon has a multi-package payload compartment that is designed to carry 5 cubic feet of cargo in a weather-resistant compartment. The Falcon is anticipated to receive regulatory compliance in H2/20.

**Condor:** The Condor is a gas-powered drone capable of carrying a payload of 180 kg up to 200 km at a speed of 120 km/h. In our view, the Condor is the most interesting drone in DDC's fleet as it can open new markets given its range and payload capacity. We believe a majority of DDC's customers will migrate to larger drones, such as the Condor, once they receive regulatory approval.

Figure 4 DDC's Drones – Sparrow Left; Condor Right



Source: Company Reports

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**Product Lines**

**Depot to Depot:** The Depot to Depot to model allows for the transportation of goods to and from distribution centres and warehouses. Initially, the service will be deployed in both rural and suburban areas as there are fewer operational limitations in these areas compared to densely populated areas. Out of DDC's operating lines, Depot to Depot is viewed as the easier of the two and is viewed as an extension of the Company's research and development initiatives. In our view, the Company's near- and medium-term revenue will be derived from this product line.

DDC's services will be marketed on a per-transaction basis, but contain minimum volume requirements, and thus, create a recurring revenue model. This model is similar to other air cargo operators, such as ♦Cargojet (Buy Rating; \$120.00 Target). Rates will be route dependent, but we expect monthly rates to range between \$10,000 and \$20,000. Furthermore, customers will pay an integration and setup fee, which contains the cost of the physical drone and other infrastructure.

**Depot to Customer:** The Depot to Customer concept essentially replaces the traditional last-mile service, delivering goods from retailers to a consumer's home or office. Management envisions providing a Depot to Customer service once the Depot to Depot business line matures and Canadian government agencies establish the necessary regulatory framework. We believe this is the most hotly contested space, with well-capitalized players such as Google and Amazon vying for a piece of the pie. Unlike the Depot to Depot business, we expect Depot to Customer rates to be on a parcel basis and not contain any minimum volume guarantees.

♦ During the past twelve months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for Cargojet Inc.

**Figure 5** Depot to Depot - Drone Spot Security Interface



Source: Company Reports

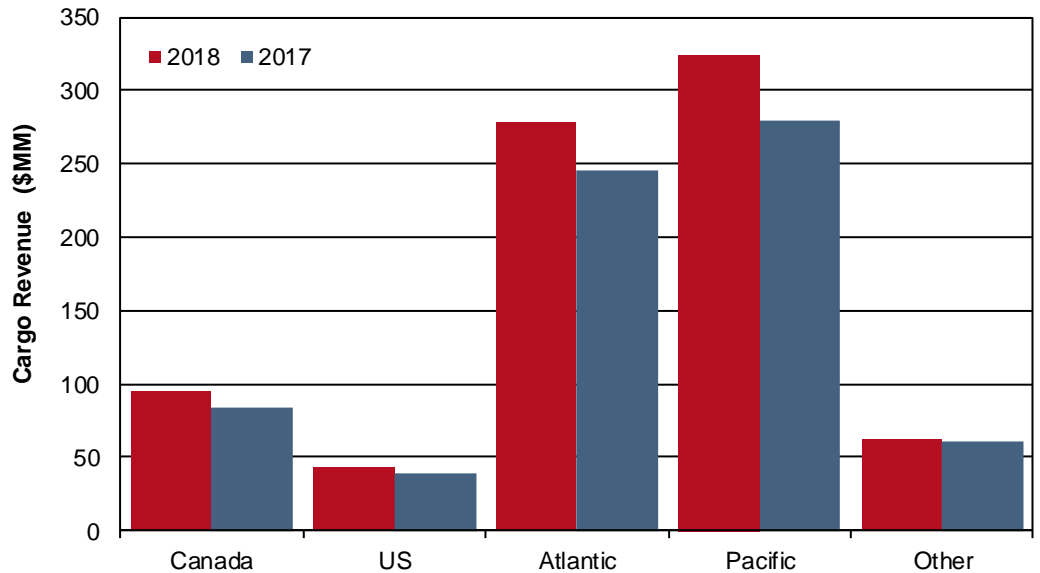
### Air Canada Partnership

On June 4, 2019, DDC and Air Canada Cargo (“AC”) announced a partnership agreement under which AC will market and sell DDC to customers on an exclusive basis covering up to 150,000 routes in Canada. The initial agreement is for 10 years with an option to extend for an additional five years. While no financial metrics were provided, we believe the routes will be operated for a monthly fee of \$10,000-20,000. In our view, the partnership agreement with AC is monumental, as it provides credibility and grants DDC access to AC’s global cargo client base. In the long-run, it is conceivable that AC takes an ownership stake in DDC, similar to AC’s 9.9% stake in Chorus Aviation.

Furthermore, the agreement has the potential to expand into other geographic regions where AC conducts cargo business, such as Europe, the United States, and Asia. This would not come as a surprise to us, as AC derives most of its cargo business outside of Canada (Figure 6).



**Figure 6 Air Canada Cargo Revenue**



Source: Company Reports; Cormark Securities Inc.

Although the partnership is still new, AC has already secured three customers:

- Vision Profile Extrusion:** Vision has been in operation for over 40 years and is focused on building products. These include extruded plastic products such as window barriers, aluminum and vinyl doors, vinyl outdoor products, steel doors and frames, and vinyl sheds. Under the agreement, DDC will operate defined routes between Vision’s properties in Vaughan, ON, utilizing the Sparrow drone. The first revenue flight is set to occur in Q1/20 after the client site infrastructure is completed. Under the agreement, Vision is allowing DDC to demo the flight operations at their facilities to other potential customers. While no financial metrics were provided, we estimate that the route will generate \$120,000 per year or \$10,000 per month.
- DSV Palapina:** On October 22, 2019, DDC announced it entered into a commercial agreement with DSV Canada, a division of DSV Palapina (“DSV”), to deploy its drone delivery platform. DSV is a global transport and logistics company that provides and manages supply chain solutions for thousands of companies and is the 4<sup>th</sup> largest freight forwarder.

The first route will occur on a defined flight route basis from DSV’s Milton facility, the company’s Canadian head office, utilizing the Sparrow drone. The drone infrastructure installation is expected to be completed in Q1/20 with service to begin shortly after. Most importantly, 20 additional routes could be added sometime in 2020.

Similar to the Vision contract, DSV will pay DDC a monthly fee for each drone route deployed. The initial term is for 15 months with additional successive one-year terms to follow, unless otherwise terminated. If all the routes are deployed, we estimate that the contract could be worth \$2.4-\$4.8 MM.

- Edmonton Regional Airport Authority:** On October 28, 2019, DDC entered into a commercial agreement with the Edmonton Regional Airports Authority (“ERAA”), which operates the Edmonton International Airport and Villeneuve Airport, to develop the world’s first drone delivery hub. Under the agreement, DDC will build takeoff and landing zones utilizing its infrastructure solutions, while ERAA will implement, promote, and market DDC’s services to new and existing customers. Like the other agreements, no financial metrics were disclosed.

We believe the agreement with ERAA is the most significant commercial agreement to date, given that DDC will operate in highly restrictive airspace. This, in our view, opens the door to other airports utilizing DDC’s software to create additional drone hubs.

**Remote Communities  
A Clear Opportunity**

Rural communities often have limited access to conventional transportation infrastructure such as roads. Given this limited access, the use case for drones is extremely compelling. DDC has identified 1,000 communities in Canada that it plans to promote its services to, implying that the total addressable market is \$2.5 BB. Of these communities, 636 have been classified as indigenous communities. Working with these communities often means negotiating with government bodies, who are looking to connect rural areas and cut costs.

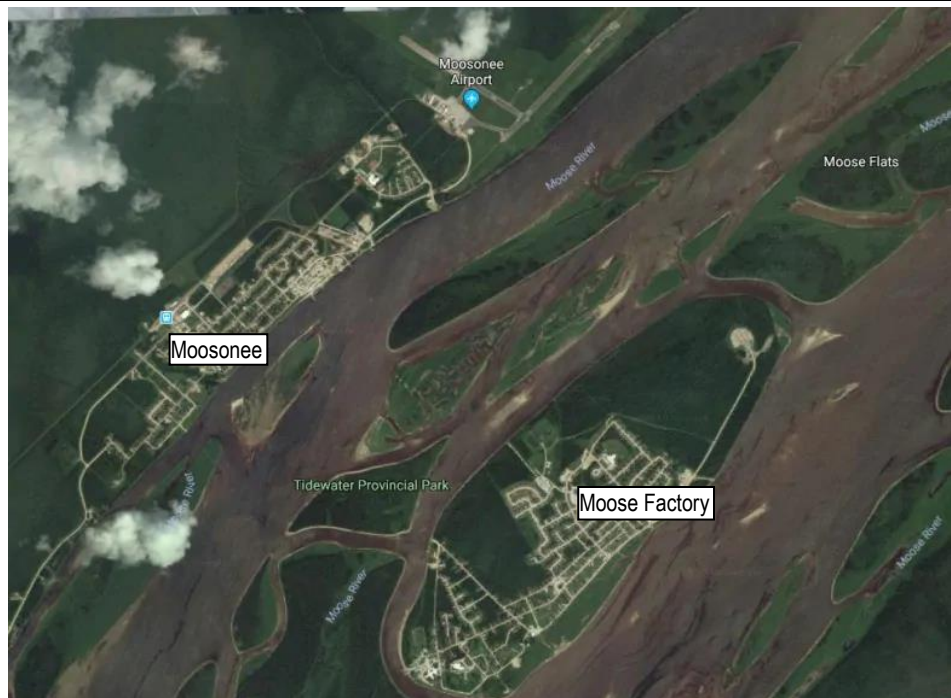
Our experience with government RFPs is that they often are slow to unfold. However, the cost-benefit of drone transportation compared to other modes of transportation and the limited access to these northern communities may expedite the process. For instance, Moosonee and Moose Factory are separated by Moose River, which can only be crossed by boat in the summer and ice road in the winter. For rush deliveries, a helicopter is often utilized that can cost \$1,800/hour and usually requires retaining a pilot in the local community. These restrictions enabled DDC to win a contract with the Moose Cree First Nations. The contract is for \$2.5 MM per year and should commence in Q1/20 given that the project received the first conditional approval for one of its funding applications.

Initially, DDC will help move essential items, such as medical supplies, food and mail from mainland Moosonee. The contract can be expanded to other services, which we believe has a high likelihood once larger drones are certified by Transport Canada, such as the Condor.

We believe of the 1,000 communities that have been identified, DDC can penetrate 2% of the market in 3-5 years, much lower than DDC’s assumption of 20%. As mentioned previously, our conservative stance is due to the fact that Government RFPs are often slow to unfold. Further, we believe this penetration rate will be more back-end loaded, with the Company winning additional business as its model is proven over time.

**Figure 7**

**Moose Cree**



Source: Google Images

## Regulatory Landscape

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### Canadian VLOS Regulatory Framework

Compared to the traditional aerospace sector, many drone operators are not commercial pilots and may not be aware of the levels of aviation safety, increasing the need for regulations. With the number of Canadian drones totalling over 190,000, Transport Canada refreshed its regulatory structure in June 2019.

Under the new regulations (Figure 8), drone operators or pilots who fly drones up to 25 kgs and below 400 ft. must have a valid drone pilot certificate and can only operate drones that have been registered with Transport Canada. Any drone under 250 grams is exempt from these rules. Currently, there are two pilot certificates: basic and advanced.

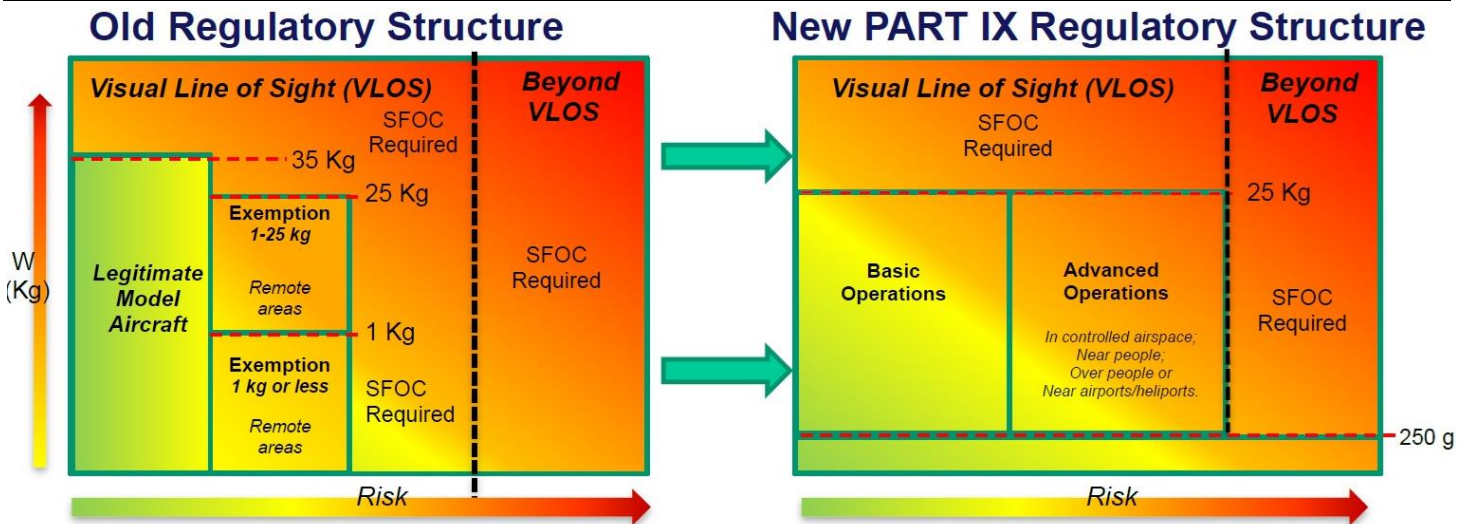
A basic drone certificate permits an operator to conduct flights within Visual Line of Sight (VLOS) under the following conditions: 1) Drones are flown in uncontrolled airspace; 2) Drones are flown 100 ft. horizontally away from bystanders; 3) Drones are never flown over bystanders. To receive a basic drone pilot certificate, operators must pass a small basic exam and be 14 years of age and older. The exam is based on knowledge requirements for basic operations.

An advanced drone certificate allows a drone operator to fly VLOS in the following conditions: 1) A controlled airspace; 2) Flights over bystanders; 3) Flights within 100 ft. horizontally of bystanders. To attain an advanced certificate a pilot must pass a small advanced exam and an in-person flight review. The exam features 50 multiple choice questions, and a score greater than 80% is required to pass. All flight reviews are conducted by a self-declared drone flight school and focus on the pilot's ability to operate the drone safely. While a drone operator with an advanced certificate can fly in controlled airspace, permission must be granted by air traffic control in advance.

To operate a drone outside of the basic and advanced weight and altitude restrictions, a Special Flight Operations Certificate is needed. The SFOC may allow an operator to fly a drone BVLOS.

On the other hand, foreign operators (both personal and commercial), regardless if they are flying within the restrictions of the basic or advanced certificate, are required to have an SFOC to fly any drone for any purpose. As it relates to DDC, the company was granted a Compliant UAV Operator SFOC in 2018. Specific details of the SFOC have not been publicly disclosed.

**Figure 8 Canadian Regulations**



Source: Transport Canada

**The Next Frontier: Canadian BVLOS**

As mentioned previously, an SFOC is required to operate BVLOS flights. While this may be the case, the regulations surrounding BVLOS operations have not been cemented. To help develop the framework, Transport Canada invited members of the industry in 2018 to create concepts of operations for BVLOS. Organizations applied to be one of four operators that would test BVLOS flights on a trial basis. The four organizations selected were: Canada Post, Canadian UAVs, Drone Delivery Canada, and ING Robotic Aviation. These trials were to be conducted in 2018-19 to gain flight experience and to test current systems. Each of the four operators were focused on different use cases:

**Canada Post** - Exploring the deployment of drones in Canada’s remote and rural regions.

**Canadian UAVs** - Conducting a long-range pipeline survey in Western Alberta to prove the feasibility and capability of using a ground-based radar system.

**Drone Delivery Canada** - Exploring using drones for the safe delivery of food and medical services in Moosonee, Ontario.

**ING Robotic Aviation** - Conducting a trial to perform infrastructure surveys in western Canada with support from key partners.

Beyond this, Transport Canada is developing regulations to enable lower-risk BVLOS flights that include operations in uncontrolled airspace and outside highly populated city centres. The regulations will include requirements for the crew, the systems and the procedural requirements. In terms of timelines, the target pre-publication date in Canada Gazette, Part I, is July 2020, with a target publication date in Canada Gazette, Part II, by March 2022.

**US Regulations**

In the US, the FAA and the National Aeronautics and Space Administration (NASA) are collaborating to develop the framework and airworthiness of BVLOS commercial drone operations. The development of an Unmanned Aircraft System Traffic Management is in progress and addresses operations below 400 ft., an area that the FAA’s current system does not address.

Similarly, the US Department of Transportation has selected 10 states to participate in its Unmanned Aircraft System Integration Pilot Program. The program is tasked with solving the challenges associated with integrating drones into the national airspace. The participants will conduct operations until November 2020.

## Competitive Landscape

### Regulations Should Restrict Competition In Canada

Similar to regulatory restrictions in the Air Transport industry, we expect Canadian regulations to prevent foreign competition in drone operations. Cabotage, the carriage of domestic traffic by a foreign carrier, is prohibited in Canada. As such, foreign couriers such as UPS, FedEx and DHL, will likely rely on Canadian operators, such as DDC, to transport cargo across Canada.

Furthermore, foreign ownership restrictions prevent foreigners from owning more than 49% of the voting interest of an airline. The restrictions limit the pool of capital available for other Canadian drone operators, and thus, creates another barrier to entry.

While the costs of a drone are not as prohibitive as the cost of a cargo aircraft, we believe DDC may be one of the only players in Canada given the cost and time to develop the infrastructure capable of BVLOS flights.

Outside of Canada, competition is fierce, with large well-capitalized technology and logistics firms vying for a piece of the pie. Given this, we believe that DDC's market opportunity is in Canada, but the Company may win a portion of the large global market due to its robust drone logistics platform. In comparison, DDC's competitors are more focused on the physical drone, rather than the overall system, which includes full-scale logistics.

In the following section, we review the Company's main competitors.

**Figure 9** Competitive Landscape

	 PROJECT WING	 amazon	 AIROBOTICS	 Flirtey <small>nighting engine operators</small>	 zipline <sup>(1)</sup>	 DRONE <small>DELIVERY CANADA</small>
# of Countries	3	5	3	3	3	3
# Flights	70,000+	na	na	na	14,000+	10,000+
Commercial Partners	na	Amazon	RockBlast	Dominos 7-Eleven	Government of Rwanda Government of Ghana	Air Canada Toyota Tsusho Moose Cree
Autonomous Software	In-House	In-House	In-House	na	In-House	In-House
Revenue Generating	Yes	Yes	Yes	Yes	Yes	Yes
Government License	Yes	No	Yes	Yes	Yes	Yes
Capital Raised / Allocated	na	na	US\$101M	US\$16.8M	\$392.4M	\$46.5M
Valuation (EV)	na	na	na	na	\$1.72Bn	\$142.7 MM

Source: Company Reports



## Regardless, Who Are the Competitors and What Are They Doing?

**Matternet:** Matternet is building a technology platform, which includes the logistics software, the drone, and the drop station, to service on-demand drone flights in urban environments. The Company has raised \$16 MM in series A funding led by Boeing HorizonX Ventures.

In the US, Matternet has partnered with UPS to deliver unmanned medical samples across hospital campuses, replacing transportation by courier cars. The initial testing is part of the FAA's Unmanned Aircraft System Integration Pilot Program, which is designed to test practical applications of drones by working with both the private sector and local governments. The partners include the FAA, NCDOT, UPS, Matternet, and WakeMed. The drone used is Matternet's M2 Quadcopter, which can carry payloads up to 5 lbs for 12.5 miles.

In September 2019, UPS received the first-ever Part 135 standard certification in the US that allows UPS and Matternet to operate a drone airline. Part 135 is the highest level of certification and contains no limits on the scope of the operation. The new certification eliminates the restriction that prevented UPS from operating drones and cargo exceeding 55 lbs and flying at night.

UPS and Matternet plan to expand its flights to other medical campuses and have recently partnered with the University of Utah Health Network in Salt Lake City. UPS and Matternet intend to build a centralized operations control centre that is capable of monitoring drones BVLOS. In the long-run, UPS and Matternet intend on adding services outside of healthcare, such as special commodities and other regulated goods.

Matternet is also the first company to run a drone logistics network over densely populated areas in Switzerland. The Company is partnered with the Swiss Post to transport lab samples via BVLOS flights. Initially, Matternet conducted flights between Tiefenau hospital and University Hospital in Berne and other flights in Zurich.

Although, Matternet has a formidable partner in Europe, two of its drones have been involved in crashes. While both crashes failed to deploy the safety parachute, one of these crashes occurred 150 feet away from children. As a result, the Swiss Post elected to suspend the service indefinitely but remains committed to using drones for logistics.

**Amazon Prime Air:** Amazon via its subsidiary, Amazon Prime Air, intends to build a drone platform to deliver individual packages to customers within 30 minutes of ordering. The Company's drone, which has gone through more than 12 iterations, is a fully electric and autonomous drone capable of flying up to 15 miles while carrying packages weighing under 2.2 kgs. Although the drone is small relative to DDC's future drones, Amazon's drone can carry 75-90% of all Amazon orders. The drone has several sensors and systems to detect static and moving objects in the air. When landing, stereo vision alongside AI algorithms detect people and animals to ensure the utmost safety.

Amazon has received approval from the FAA to operate unmanned aircraft for research and development and crew training - only in authorized flight areas. The certificate is valid for one year but is eligible for renewal. While the Company envisions an army of drones delivering packages in the future, it has not received Part 135 certification that would allow this dream to come to fruition in the US. It is important to note that the United States is not Amazon's only testing region as it has development centres in the United Kingdom, Austria, France, and Israel.

**Wing:** Originally Google X, Wing became a separate subsidiary of Alphabet Inc. in July 2018. Wing's drones are designed for the delivery of small parcels (3.3 lbs or less) and have been flown more than 80,000 times across three continents. Unlike other drone operators that utilize a drone zone, Wing's drone delivers packages via a tether and never physically lands at a drop zone. As well as the physical drone, Wing has developed its

own unmanned traffic management software that allows a drone to operate BVLOS. The software monitor ensures that it is safe for take-off and delivery, and if need be, takes the necessary actions to automatically avoid any problems.

In the US, Wing received the first Part 135 Single Pilot Carrier certificate from the FAA, which allows a single pilot to operate commercial drone flights. Wing received the certification for demonstrating safety standards that are compliant with the FAA as part of its participation in the FAA Unmanned Aircraft Systems Integration Pilot program.

After several thousand test flights, Wing received authorization to launch a drone delivery service to approximately 100 homes in Canberra, Australia. The service is expected to be expanded to other regions in the coming months. Initially, the service will cater to local businesses in both the food and healthcare verticals. While this is certainly a step in the right direction, the drones will be restricted from flying over main roads and operating from 8 pm to 7 am.

**Zipline:** Founded in 2014, Zipline, is a drone company focused on delivering medicine to remote areas in Rwanda and Ghana. The Company's drones are manufactured in Half Moon, CA and have conducted over 23,000 deliveries to date. Zipline's app allows doctors to place orders for medicine which are delivered utilizing Zipline's drones from a centralized distribution centre. The drones can fly over 100 km/h within an 80 km radius while carrying a 1.8 kg package. The packages are dropped off via parachute, and as such, do not require any human interaction.

In total, Zipline has raised \$225 MM including a \$190 MM financing in 2019 at a \$1.2 BB valuation. Investors include The Rise Fund, which is managed by private equity firm TPG, Baillie Gifford, GV, Katalyst Ventures, Bright Success Capital, Goldman Sachs, Oakhouse Partners, Toyota Tshuho Corp and Design to Improve fund. The Company intends to open over 2,600 facilities in Rwanda and Ghana and expand to other remote areas in Africa, the Americas, South Asia and Southeast Asia. In the US, Zipline has received regulatory approval from the FAA to conduct medical drone delivery tests in North Carolina.

**Flirtey:** After partnering with the University of Nevada, Reno, in 2014, Flirtey relocated its operations from Australia to Nevada. Since then, Flirtey's customer and partner list has expanded and now includes Domino's, 7-Eleven, NASA, John Hopkins University of Medicine and many others. The Company has completed several deliveries in rural areas containing medicine, retail, and e-commerce items. In 2017, Flirtey raised \$16.8 MM in series A funding, led by its seed investors Menlo Ventures and Qualcomm Ventures.

**Airobotics:** Unlike all the companies featured in this section, Airobotics is not focused on the delivery of cargo, but instead on security, surveying and mapping, and inspection. To date, Airobotics has completed more than 30,000 automated drone flights and is certified to fly BVLOS in Australia and Israel. Also, it is certified to test BVLOS flights in the US, Chile, and New Caledonia.

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**A Consortium Of Competitors Developing Unmanned Traffic Management System**

To accelerate the development of commercial drones, a consortium of companies, which include Amazon, General Electric, Boeing, and Alphabet Inc., are researching the development of a private unmanned traffic control system (UTM) that is separate from the current federal system. The framework is currently being developed for unmanned traffic at low altitudes, which is defined as below 400 feet.

The consortium has received support from the National Aeronautics and Space Administration (NASA) to conduct tests at several sites. While separate from the federal system, the drone UTM would be capable of interacting with legacy systems, including the FAA's existing ground radars and human controllers. To keep costs down, communication amongst the various drones in the sky would be limited to a defined radius. For instance, drones flying over Toronto will not have flight path data of drones operating in New York. At a conference in 2018, Gur Kimchi, a vice-president of Amazon Prime Air, indicated that the development could take up to two years. The need for a UTM becomes more prevalent every day as the number of drones in the sky continues to proliferate.

We note that DDC's FLYTE software is a UTM and could be readily deployed by other drone operators. Nonetheless, if the Government pursues a mandatory UTM, DDC already has built APIs to integrate a universal UTM into the company's software.

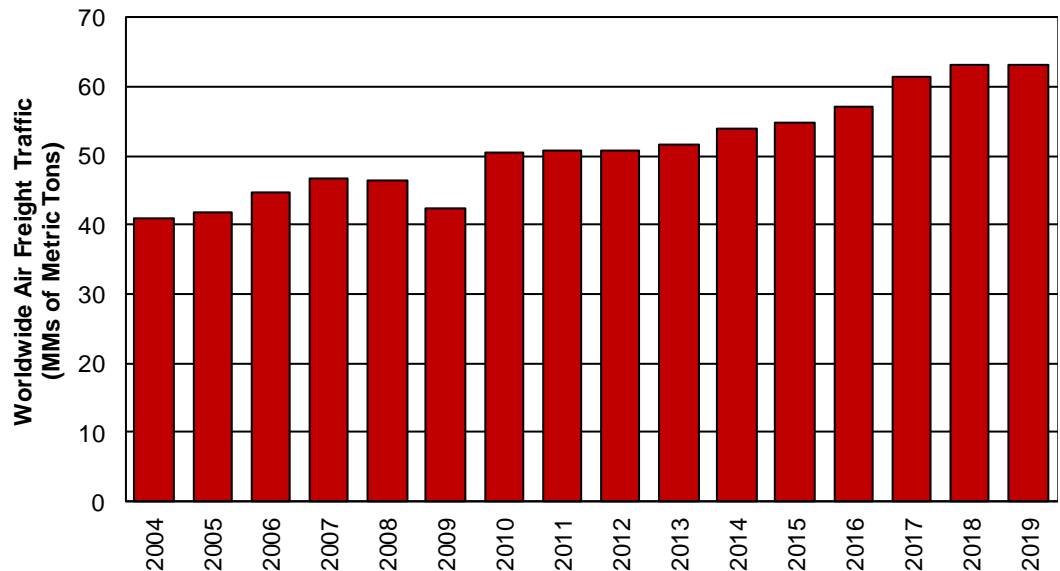
## Sizing the Market

### Air Cargo Market - eCommerce Supporting Growth

In 2018, airlines transported 52 million metric tons of goods and generated approximately 9% of airline revenues. While Air Cargo only represents 1% of global trade, the industry transports more than \$6 trillion of goods each year, representing over 35% of global trade by value. The difference is attributable to the value of transporting time-sensitive, high-value goods. In aggregate, Boeing forecasts that the market will grow 4.2% for the next 20 years. The largest influence on the Air Cargo market is economic growth coupled with a range of other factors such as globalization. Meanwhile, North American air cargo traffic is expected to grow 2.3% over the next 20 years.

Figure 10

Worldwide Air Freight Traffic

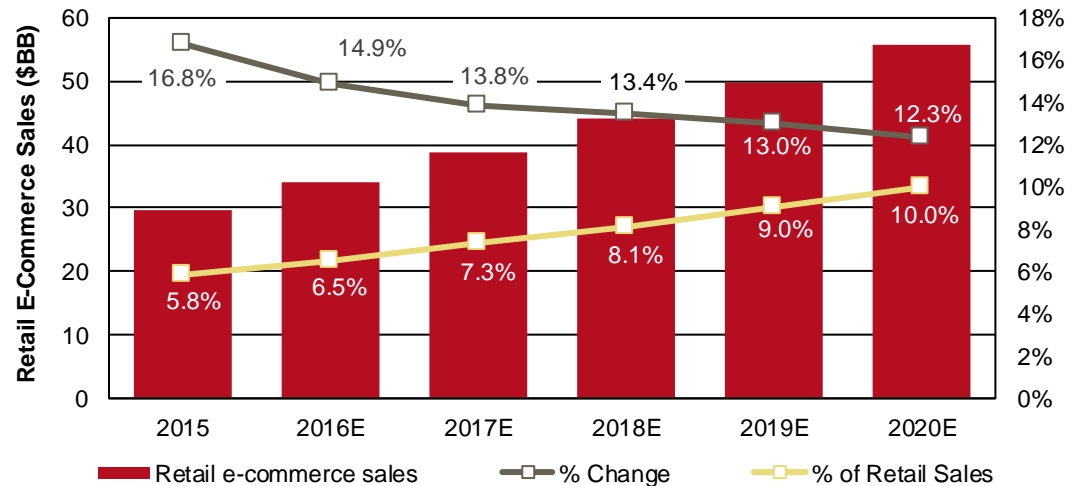


Source: eMarketer 2016; Cormark Securities Inc.

While Depot to Customer is not the major driver to our thesis, e-commerce will be a key aspect of that business. The explosive growth in e-commerce is attributable to the convenience of shopping online and the personalization of the overall experience. This shift in consumer behaviour is resulting in retailers placing their entire portfolio of products online. While the usual suspects such as electronics and clothing dominate shoppers' e-carts, other items such as groceries and home-improvement items are becoming more common.

The e-commerce trend is expected to continue at full-steam, growing at an impressive double-digit rate, which is significantly more than the overall retail space (Figure 11). For instance, in 2016, brick-and-mortar sales grew a mere 2% Y/Y vs. online retail sales of 15% Y/Y. The increase is a result of a shift in channels and merchants harnessing the potential of key online shopper segments. There is more room for growth as Canada's percentage of e-commerce sales lag that of other developed nations such as the United States. Specifically, e-commerce sales as a percentage of retail sales in the US are 9.0% versus Canada at 7.3%.

**Figure 11 Canadian Retail E-Commerce Sales**



Source: eMarketer 2016; Cormark Securities Inc.

**Sizing DDC's Target Areas**

**Remote Communities:** DDC has identified 1,000 remote communities that have limited or no access to typical modes of transportation. This lack of connectivity increases the cost of conducting business as expensive alternative measures are often taken. Furthermore, changes to climate conditions are rendering winter roads unusable and permafrost degradation is damaging current infrastructure. To counter this, drones have been identified as an alternative.

According to DDC's management, it believes a 20% penetration rate of the 1,000 identified communities is attainable in the next 3-5 years. While we do not model this in our financial forecast, we have illustrated the revenue opportunity in Figure 12. It is our view that remote community sales will ramp up slowly, given that many of these communities are First Nation and rely heavily on government subsidies. These subsidies often have a long approval process and the allocation of the resources often goes through a competitive RFP.

Our financial model assumes that DDC services 20 remote communities at the end of our forecast horizon. We model revenue metrics like the contract signed with Moose Cree First Nations.

**Figure 12 Northern Communities Annual Revenue Potential**

		Annual Revenue Per Community (000s)				
		2,000	2,250	2,500	2,750	3,000
Northern Communities	20	40,000	45,000	50,000	55,000	60,000
	65	130,000	146,250	162,500	178,750	195,000
	110	220,000	247,500	275,000	302,500	330,000
	155	310,000	348,750	387,500	426,250	465,000
	200	400,000	450,000	500,000	550,000	600,000

Source: Cormark Securities Inc.



**Enterprise Customers:** With Air Canada at DDC's side, DDC has been able to sign several enterprise customers in a relatively short duration. In aggregate, the partnership covers 150,000 routes and based on Management's estimate that each drone route generates monthly sales of \$10,000 - \$20,000, we have framed potential outcomes in Figure 13. Like our Northern Communities revenue assumption, we are not overly aggressive with our forecast and estimate that DDC will operate 400 routes in 2024.

**Figure 13 Enterprise Annual Revenue Potential**

		Monthly Revenue Per Route (000s)				
		5.0	7.5	10.0	12.5	15.0
Total Routes	400	24,000	36,000	<b>48,000</b>	60,000	72,000
	600	36,000	54,000	72,000	90,000	108,000
	800	48,000	72,000	96,000	120,000	144,000
	1,000	60,000	90,000	120,000	150,000	180,000
	1,200	72,000	108,000	144,000	180,000	216,000

Source: Cormark Securities Inc.

**Licensing Revenue:** DDC's FLYTE software can be licensed to other Drone operators given that it is hardware agnostic, implying that it can be installed on any airframe. While no licensing deals have been signed thus far, DDC is in detailed discussions with a prominent African airline and conglomerate. We believe the Air Canada partnership has the potential to open the door to future licensing arrangements. For illustrative purposes, we have identified the potential opportunity in Figure 14. We forecast 10 licensing arrangements at \$750 M at the end of our forecast horizon.

**Figure 14 Licensing Annual Revenue Potential (000s)**

		Annual Revenue Per Contract (000s)				
		250	500	750	1,000	1,250
Northern Communities	10	20,000	22,500	<b>25,000</b>	27,500	12,500
	15	30,000	33,750	37,500	41,250	45,000
	20	40,000	45,000	50,000	55,000	60,000
	25	50,000	56,250	62,500	68,750	75,000
	30	60,000	67,500	75,000	82,500	90,000

Source: Cormark Securities Inc.

# Forecast

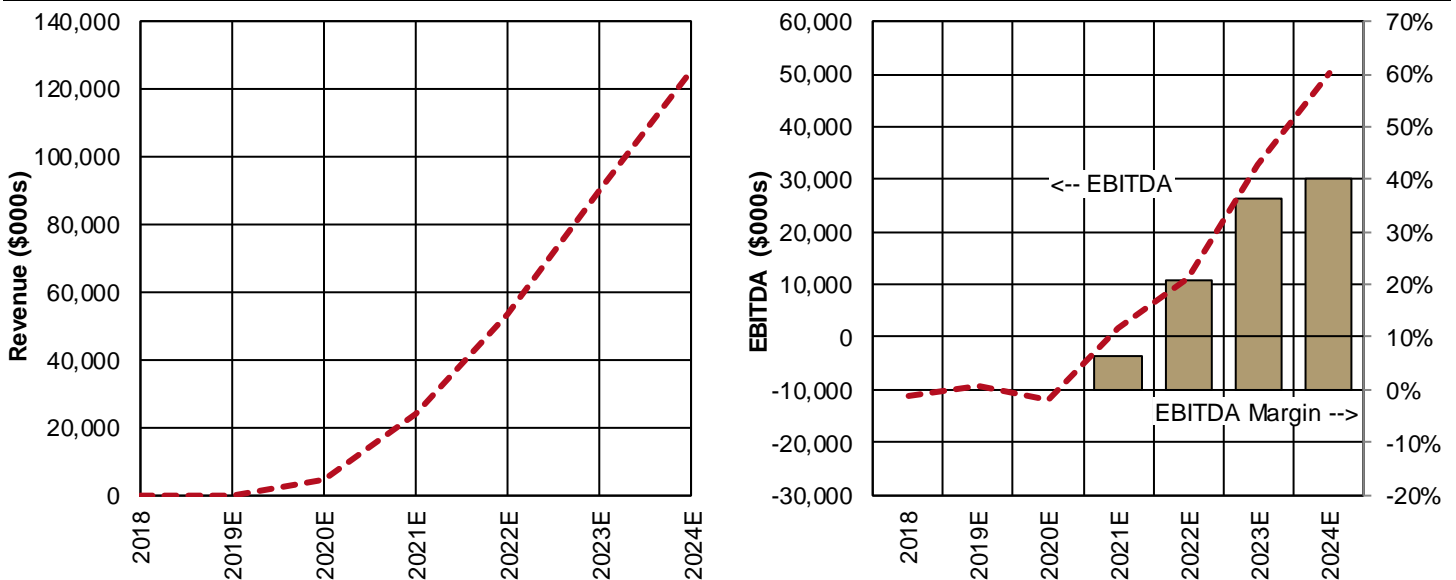
## Commercialization In The Early Innings

We are forecasting DDC to complete its first revenue flight in Q1/20 and ramp-up flying on its recently won contracts in the balance of 2020. We expect the Company to be EBITDA breakeven by 2021 and generate meaningful profits by the end of our forecast horizon.

Our sales growth is supported by the Air Canada partnership, which has already materialized three contracts in a relatively short time-span. It is our view that once these routes are operational and DDC's largest drones are certified by Transport Canada, DDC's growth will accelerate. We expect remote community pricing to be in-line with the Moose Cree First Nations contract and enterprise routes to be at the low-end of Management's guidance of \$10,000-\$20,000. It is important to note that each contract will have set up fees (approximately \$100K) that include the cost of the drone and a decommissioning fee at the end of the contract. While DDC's customers pay upfront for the drone, the Company still owns all the assets. On the other hand, licensing is a small part of our forecast, but has the potential to offer a SaaS revenue stream at extremely high margins. Overall, our forecast assumes moderate penetration relative to the total addressable market, as outlined in the previous section.

It is our view that DDC can achieve EBITDA margins like that of Cargojet, which is expected to generate 42% EBITDA margins excluding fuel in 2019, once DDC reaches critical mass. While the tail-end of our forecast horizon projects 40.2% margins, it is our view that DDC can potentially exceed this given that the Company has a significant amount of operating leverage. Specifically, each drone operator can monitor up to 50 drones, whereas CJT requires expensive pilots for each plane, and DDC has software licensing potential.

**Figure 15 Revenue and EBITDA Forecast**



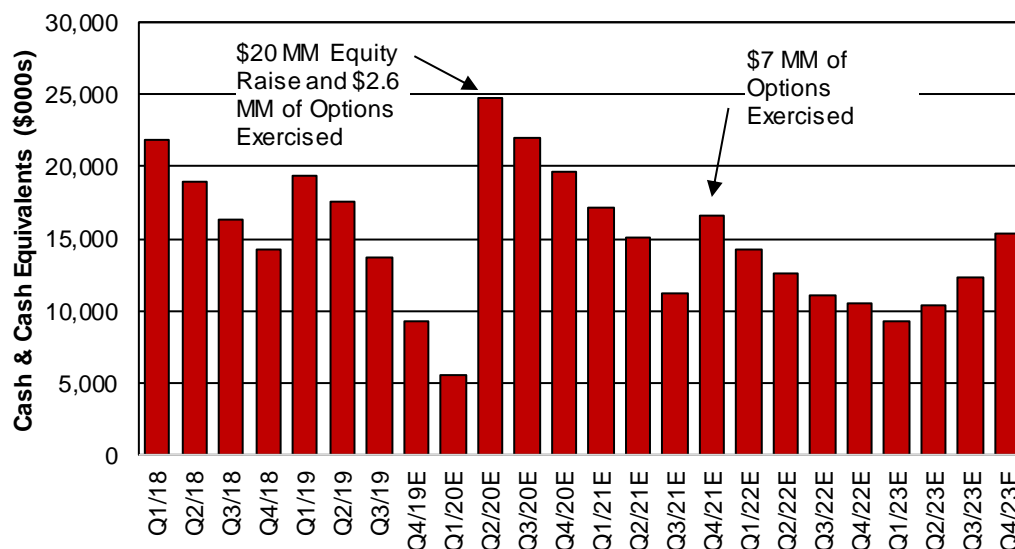
Source: Company Reports; Cormark Securities Inc.

**Balance Sheet**

As of September 30, 2019, DDC has \$13.7 MM of cash on its balance sheet and is currently burning approximately \$4 MM/quarter. Given this, we are modelling a \$20 MM equity raise in Q2/20 at \$1.00/share, which provides the Company with enough liquidity to scale and reach breakeven cash flows. However, any delays in the commercialization of the drone platform would likely result in additional financings to help fund the growth.

DDC has several options and warrants outstanding as outlined in Figure 17. We model that the in-the-money options and warrants will bring in an additional \$2.625 MM in funding in Q2/20 and approximately \$7 MM in Q4/21.

**Figure 16 Forecast Cash & Cash Equivalents**



Source: Company Reports; Cormark Securities Inc.

**Figure 17 Outstanding Warrants and Options**

Expiry Date	Exercise Price	Weighted Average Life Remaining (Years)	Units Outstanding (000s)
<u>Options</u>			
20-Jul-22	\$0.50	2.81	3,150
20-Sep-22	\$0.50	2.98	2,100
5-Jan-23	\$1.00	3.27	1,620
2-Mar-23	\$1.80	3.42	5,300
2-Aug-23	\$1.80	3.84	250
30-Aug-24	\$1.00	4.92	5,375
<u>Warrants</u>			
25-Mar-21	\$1.20	1.15	274
25-Mar-21	\$1.50	1.48	4,175

Source: Company Reports; Cormark Securities Inc.

**Figure 18** **Financial Summary**

<b>Fiscal YE December 31</b> <b>(\$000s except where denoted)</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Total Revenue	-	-	4,430	24,013	53,244	89,936	125,092
Adj. EBITDA	(11,173)	(9,286)	(12,071)	1,501	10,975	32,717	50,265
Operating Profit (EBIT)	(11,197)	(12,518)	(13,013)	(108)	7,775	27,971	44,174
Net Income	(19,612)	(14,035)	(9,571)	(87)	5,708	20,551	32,461
EPS	\$(0.12)	\$(0.08)	\$(0.05)	\$(0.00)	\$0.03	\$0.10	\$0.15
FCFPS	\$(0.07)	\$(0.10)	\$(0.06)	\$(0.05)	\$(0.03)	\$0.02	\$0.10
<b>Income Statement Ratios</b>							
Increase in Total Revenue	n.a	n.a	n.a	442.0%	121.7%	68.9%	39.1%
Increase in EPS	71.2%	-34.6%	-39.2%	-99.1%	-6532.0%	259.8%	58.0%
EBITDA/Sales	0.0%	0.0%	-272.5%	6.3%	20.6%	36.4%	40.2%
Net Debt	(14,309)	(8,671)	(18,996)	(16,003)	(9,828)	(14,294)	(35,928)
Net Debt to Total Capital	-6070%	-136%	-209%	-84%	-32%	-30%	-62%
Adj. Net Debt / EBITDA	n.a.	n.a.	n.a.	n.a.	-0.9x	-0.4x	-0.7x

Source: Company Reports; Cormark Securities Inc.

## Valuation

### Nascent Industry – No Publicly Traded Comps

Given that the commercialization of drones is still in the early innings, there are a limited number of comparable companies. Having said that, we believe CJT represents the best comp as both companies operate in industries that have significant barriers to entry. In DDC's case, the Company is supported by regulations in Canada, specifically cabotage, and its partnership with Air Canada.

As noted previously, DDC can achieve EBITDA margins above CJT due to the operational leverage inherent in the business. Since the Company has not generated any profit, but growth prospects are enormous, we value DDC at 11.0x 2024 EBITDA, 2.0x lower than our valuation multiple for CJT.

**Figure 19** FLT vs. Peers

Company	Ticker	06-Jan Price	Mrkt Cap (MM)	P / Sales			EV / EBITDA		
				2019	2020	2021	2019	2020	2021
Drone Delivery Canada	FLT	C\$0.95	167	n.a.	37.8x	7.0x	n.m.f.	n.m.f.	n.m.f.
<b>Legacy Carriers</b>			<b>23,584</b>	<b>0.5x</b>	<b>0.5x</b>	<b>0.5x</b>	<b>6.1x</b>	<b>5.8x</b>	<b>5.6x</b>
Air Canada	AC	C\$47.30	12,629	0.7x	0.6x	0.6x	4.5x	4.0x	3.6x
American Airlines	AAL	\$27.41	12,009	0.3x	0.3x	0.2x	7.1x	6.6x	6.3x
Delta Airlines	DAL	\$56.54	36,570	0.8x	0.8x	0.7x	5.6x	5.6x	5.4x
United Airlines	UAL	\$87.63	22,174	0.5x	0.5x	0.5x	5.4x	5.3x	5.0x
Southwest Airlines	LUV	\$54.42	28,642	1.3x	1.2x	1.1x	6.7x	6.2x	5.9x
<b>Cargo</b>			<b>29,605</b>	<b>1.2x</b>	<b>1.1x</b>	<b>1.0x</b>	<b>9.7x</b>	<b>8.9x</b>	<b>8.0x</b>
Cargojet ♦	CJT	\$101.45	1,374	2.8x	2.6x	2.4x	13.4x	12.1x	10.7x
Air Transport Services Group	ATSG	\$22.74	1,350	0.9x	0.9x	0.8x	6.2x	5.6x	5.4x
Atlas Air	AAWW	\$27.70	716	0.3x	0.2x	0.2x	7.6x	7.1x	5.6x
UPS	UPS	\$118.30	101,480	1.4x	1.3x	1.2x	11.8x	10.9x	10.1x
FedEx	FDX	\$165.20	43,102	0.6x	0.6x	0.6x	9.6x	8.8x	8.1x
<b>Canadian Technology</b>			<b>489</b>	<b>13.6x</b>	<b>8.5x</b>	<b>8.3x</b>	<b>17.9x</b>	<b>17.0x</b>	<b>17.6x</b>
Kneat.com ♦	KSI	\$2.38	143	36.8x	15.4x	9.0x	n.m.f.	n.m.f.	n.m.f.
Real Matters	REAL	\$12.93	1,098	9.6x	7.8x	n.a.	18.8x	16.0x	n.a.
Sylogist	SYZ	\$9.45	225	5.8x	5.1x	5.0x	9.9x	11.3x	7.8x
Kinaxis	KXS	\$104.00	2,728	14.4x	12.9x	10.9x	34.6x	33.8x	27.4x
Sangoma ♦	STC	\$2.27	167	1.2x	1.1x	n.a.	8.2x	6.9x	n.a.

♦ During the past twelve months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Source: Company Reports; Bloomberg; Cormark Securities Inc.



**Initiating Coverage With A Buy (S) Rating And A \$1.50 12-Month Target**

We are initiating coverage with a \$1.50 one-year target based on our strong growth forecast and 11.0x our 2024 EBITDA estimate, which is then discounted back 15% per year. Our initial investment recommendation is Buy (S) given the 57.9% one-year implied return to our target and the inherent risks associated with the execution of DDC's business plan. Our target is also benchmarked against our DCF valuation, which yields a one-year target price of \$1.52 (see Figure 25 on page 31).

To summarize, we believe DDC's outlook is solid and this should drive good short- and mid-term share price investment returns.

**Figure 20** **Cormark Target Price for DDC**

<b>Fiscal YE December 31 (\$000s except where denoted)</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
EBITDA	1,501	10,975	32,717	50,265
x Multiplier	11.0x	11.0x	11.0x	11.0x
= EV	16,512	120,720	359,885	552,918
- Debt	(16,003)	(9,828)	(14,294)	(35,928)
= EV to Shareholders	32,515	130,548	374,178	588,846
/ Shares (FD in Millions)	203,189	208,439	208,439	208,439
= Undiscounted Value Per Share	\$0.16	\$0.63	\$1.80	\$2.83
Discount Rate	15%	15%	15%	15%
Discount Factor	0.9	0.8	0.7	0.6
= Discounted Value Per Share	\$0.14	\$0.47	\$1.18	\$1.62
<b>Cormark Rounded Price Target</b>	<b>\$0.25</b>	<b>\$0.50</b>	<b>\$1.25</b>	<b>\$1.50</b>

Source: Company Reports; Cormark Securities Inc.

## Risks

### Below Average Risk

We believe DDC has above-average risk given that the commercialization of drones is still in the early innings and that the regulatory framework for BVLOS flights is still unfolding.

Offsetting these risks is Canada's cabotage rules, which we believe will apply to drone operations. Cabotage restriction will be a significant barrier to entry, limiting competition from well-capitalized technology and logistics peers south of the border.

We believe the key risks to DDC's outlook are as follows:

- **Regulatory Risk.** The operations of DDC relies on licenses and permits issued by both Transport Canada and various government authorities. Regulations are subject to change that would not permit or stall BVLOS operations, and thus, limit the scalability of DDC's drone platform. Further, there is no assurance that the Company can obtain all the required licenses and permits.

Our forecast is predicated on cabotage restrictions in Canada that would prevent well-capitalized technology and logistics peers, such as UPS, Google, Amazon, from entering the Canadian market.

- **Government Funding Risk.** DDC is targeting remote communities as part of its initial commercialization process. These communities often rely on the government to support infrastructure projects. Absent of government funding, DDC's addressable market is smaller than our forecast opportunity.
- **Dilution Risk.** If there is a significant delay to the commercialization process, DDC may issue additional options and warrants or common shares beyond what is in our forecast.
- **Technology Risk.** Given that we are in the infancy stage of the commercialization of drones, advances in technology can render DDC's platform obsolete. This risk is somewhat mitigated as the Company is airframe agnostic, allowing its software and platform to be installed on any manufactured drone.
- **Key Partnership Risk.** The recent 10-year partnership agreement with Air Canada gives DDC access to Air Canada's global cargo customer base. If this deal were to terminate, DDC would lose a solid pipeline of customers that have already yielded 3 customer wins in a relatively short time-frame.
- **Inability to pass through variable costs.** Currently, our forecast assumes that DDC will pass through the capex associated with the build-out of routes and any fuel and battery-related costs. If this is not the case in future contract agreements, DDC would be exposed to high start-up costs and highly variable costs, which increases the risk to our forecast.

## Management Profiles

### Recent Management Changes

2019 was defined as a year of transition for DDC – moving from proof of concept to commercialization. To support this change, DDC completed a series of changes to its management team. Tony Di Benedetto, the Company's former CEO, Co-Founder, and Chairman, transitioned into a Business Strategy role with Michael Zahra assuming the role of President and CEO. Formerly, Mr. Zahra held the position of Senior Vice President of Operations and Strategy. Similarly, former President and Director, Richard Buzbuzian has assumed the new role of Head of Capital Markets. Replacing Mr. Buzbuzian and Mr. Di Benedetto on the Board of Directors are Mr. Kevin Sherkin and Vijay Kanwar.

### Figure 21

### FLT Ownership Summary

Investor	Common Shares (MM)	Common Shares (%)
<b>Management &amp; Directors</b>	<b>22.8</b>	<b>12.9%</b>
Fidelity Investments	23.3	13.2%
Nuveen LLC	1.3	0.8%
ETF Managers Group	1.1	0.6%
Picton Mahoney Asset Management	1.0	0.5%
Manulife Asset Management	0.6	0.4%
Connor, Clark & Lunn	0.4	0.2%
Other	125.7	71.3%
<b>Total</b>	<b>176.2</b>	<b>100.0%</b>

Source: Company Reports; Cormark Securities Inc.

### Michael Zahra President and CEO

Mr. Zahra joined DDC in 2019 as the Senior Vice President of Operations and Strategy and was appointed to the role of President and Chief Executive Officer in June 2019. He is a seasoned executive with over 30 years of experience at a senior-level leader and was most recently the President of Staples Advantage Canada and President of Yahoo Canada. Mr. Zahra also brings close to 20 years of experience in various Board positions.

He has a B.A.Sc. in Electrical Engineering from the University of Toronto, an M.B.A from the City University of Seattle, and a P. Logistics designation.

### Paul Di Benedetto Chief Technology Officer

Mr. Di Benedetto helped co-found DDC in 2014 and is responsible for overseeing DDC's R&D, engineering, and technical operations. He has co-founded a number of highly successful technology companies, primarily in a technology oversight role. In aggregate, Mr. Di Benedetto brings over 15 years of technology architecture and engineering experience to the DDC's management team.

### Robert Suttie Chief Financial Officer

Mr. Suttie has served as DDC's Chief Financial Officer since 2015. In addition to his duties at DDC, he serves as the Chief Financial Officer for a number of junior mining companies that are listed on both the TSX and TSX Venture exchange.

Mr. Suttie attended both the University of Western Ontario and McGill University.

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**Mark Wuennenberg**

Vice President of Regulatory Affairs

Mr. Wuennenberg serves as DDC's Vice President of Regulatory Affairs and is focused on all operational, airspace access and training aspects related to UAS. Previously, he worked as a Civil Aviation Inspection for Transport Canada and is a subject matter expert for the proposed UAS regulatory framework. Mr. Wuennenberg also had a 33-year career as part of the Royal Canadian Air Force, logging over 4,300 hours in numerous aircraft types. During his tenure, he held staff/instructor positions in the National Defense Headquarters NORAD, United States Space Command, the Canadian Forces Instrument Check Pilot School and the US Air Force's Flight Standards agency.

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**Richard Buzbuzian**

Head of Capital Markets

With over 20 years of Capital Markets experience, Mr. Buzbuzian, the previous President of DDC, serves as the Company's Head of Capital Markets. In his role, he is responsible for corporate finance matters, investor relations and day-to-day finance activities.

## Appendix A: Company Financials

Figure 22

## Income Statement

Fiscal YE December 31 (\$000s except where denoted)	2019E					2019E	2020E	2021E	2022E	2023E	2024E
	2018A	Q1A	Q2A	Q3A	Q4E						
Remote Community	-	-	-	-	-	-	1,250	9,013	19,892	38,245	54,165
Commercial	-	-	-	-	-	-	1,080	7,088	20,176	35,076	51,416
Licensing	-	-	-	-	-	-	-	188	1,931	4,376	7,581
Set Up Fee	-	-	-	-	-	-	2,100	7,725	11,246	12,239	11,930
<b>Total Revenue</b>	-	-	-	-	-	-	4,430	24,013	53,244	89,936	125,092
<b>Operating Costs</b>		2,788	3,150	2,641	3,527	12,107	16,501	22,511	34,314	44,486	53,737
<b>EBITDA</b>	(11,173)	(2,788)	(3,150)	(2,641)	(3,527)	(12,107)	(12,071)	1,501	18,930	45,450	71,355
D&A	(24)	(49)	(48)	(130)	(185)	(411)	(942)	(1,609)	(3,199)	(4,746)	(6,091)
<b>Operating Profit (EBIT)</b>	(11,197)	(2,837)	(3,198)	(2,771)	(3,712)	(12,518)	(13,013)	(108)	7,775	27,971	44,174
Finance Costs	(5)	(2)	(2)	(2)	(2)	(9)	(10)	(10)	(10)	(10)	(10)
Share-Based Compensation		(951)	(233)	(324)	-	(1,508)	-	-	-	-	-
<b>Pre-tax Income</b>	(19,612)	(3,790)	(3,434)	(3,096)	(3,715)	(14,035)	(13,022)	(118)	7,766	27,961	44,165
Income Taxes	-	-	-	-	-	-	3,451	31	(2,058)	(7,410)	(11,704)
<b>Net Income</b>	(19,612)	(3,790)	(3,434)	(3,096)	(3,715)	(14,035)	(9,571)	(87)	5,708	20,551	32,461
<b>EPS</b>	(0.12)	(0.02)	(0.02)	(0.02)	(0.02)	(0.08)	(0.05)	(0.00)	0.03	0.10	0.15
Common S/O (Basic)	159,817	163,859	173,766	176,187	176,187	172,500	195,126	203,189	208,439	208,439	208,439
Common S/O (Fully Diluted)	159,817	173,766	173,766	176,187	176,187	174,977	196,365	205,046	209,987	210,142	210,064
<b>Income Statement Ratios</b>											
Increase in Revenue	n.a	n.a	n.a	n.a	n.a	n.a	n.a	442.0%	121.7%	68.9%	39.1%
Increase in EPS	71.2%	-19.9%	-39.9%	-44.6%	-31.4%	-34.6%	-39.2%	n.m.f	n.m.f	n.m.f	58.0%
EBITDA Margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-272.5%	6.3%	20.6%	36.4%	40.2%
Effective Tax Rate	28.0%	0.0%	0.0%	0.0%	0.0%	0.0%	26.5%	26.5%	26.5%	26.5%	26.5%
<b>Revenue Drivers</b>											
Avg # of Remote Communities	-	-	-	-	-	-	1	4	8	14	19
Avg # of Commercial Customers	-	-	-	-	-	-	9	56	153	253	353
Avg # of Licenses	-	-	-	-	-	-	-	0	3	6	9

Source: Company Reports; Cormark Securities Inc.

**Figure 23** **Balance Sheet**

Fiscal YE December 31 (\$000s except where denoted)	2019E										
	2018A	Q1A	Q2A	Q3A	Q4E	2019E	2020E	2021E	2022E	2023E	2024E
Cash & Cash Equivalents	14,309	19,420	17,565	13,730	9,311	9,311	19,637	16,643	10,469	14,934	36,569
Accounts Receivable	1,670	1,920	2,331	2,770	2,908	2,908	3,703	7,910	12,984	22,482	28,339
Prepaid Expenses	214	172	168	186	186	186	231	335	644	870	1,088
<b>Total Current Assets</b>	<b>16,193</b>	<b>21,512</b>	<b>20,064</b>	<b>16,685</b>	<b>12,405</b>	<b>12,405</b>	<b>23,571</b>	<b>24,888</b>	<b>24,098</b>	<b>38,287</b>	<b>65,995</b>
Property & Equipment	97	927	1,584	3,081	3,646	3,646	5,705	11,820	19,867	27,359	33,199
Patents	485	521	582	611	611	611	611	611	611	611	611
Deferred Tax Assets	11	11	11	11	11	11	11	11	11	11	11
<b>Total Assets</b>	<b>16,786</b>	<b>22,972</b>	<b>22,242</b>	<b>20,389</b>	<b>16,674</b>	<b>16,674</b>	<b>29,898</b>	<b>37,331</b>	<b>44,587</b>	<b>66,268</b>	<b>99,816</b>
Trade and Other Payables	2,242	492	939	983	983	983	1,154	1,673	3,221	4,352	5,439
Lease Obligation	-	198	198	198	198	198	198	198	198	198	198
Current Debt	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>2,242</b>	<b>690</b>	<b>1,137</b>	<b>1,181</b>	<b>1,181</b>	<b>1,181</b>	<b>1,352</b>	<b>1,871</b>	<b>3,419</b>	<b>4,550</b>	<b>5,637</b>
LT Debt	-	494	469	443	443	443	443	443	443	443	443
<b>Total Liabilities</b>	<b>2,242</b>	<b>1,184</b>	<b>1,606</b>	<b>1,624</b>	<b>1,624</b>	<b>1,624</b>	<b>1,794</b>	<b>2,314</b>	<b>3,862</b>	<b>4,992</b>	<b>6,079</b>
<b>Shareholders' Equity</b>	<b>14,544</b>	<b>21,788</b>	<b>20,636</b>	<b>18,765</b>	<b>15,050</b>	<b>15,050</b>	<b>28,103</b>	<b>35,017</b>	<b>40,724</b>	<b>61,276</b>	<b>93,737</b>
<b>Tot. Liabs. &amp; Equity</b>	<b>16,786</b>	<b>22,972</b>	<b>22,242</b>	<b>20,389</b>	<b>16,674</b>	<b>16,674</b>	<b>29,898</b>	<b>37,331</b>	<b>44,587</b>	<b>66,268</b>	<b>99,816</b>
Adj. Net Debt	(14,309)	(18,728)	(16,899)	(13,089)	(8,671)	(8,671)	(18,996)	(16,003)	(9,828)	(14,294)	(35,928)
Adj. Net Debt to Total Capital	-6070%	-612%	-452%	-231%	-136%	-136%	-209%	-84%	-32%	-30%	-62%
Adj. Net Debt / EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-10.7x	-0.9x	-0.4x	-0.7x

Source: Company Reports; Cormark Securities Inc.



**Figure 24 Cash Flow Statement**

Fiscal YE December 31 (\$000s except where denoted)	2019E										
	2018A	Q1A	Q2A	Q3A	Q4E	2019E	2020E	2021E	2022E	2023E	2024E
<b>Operating Activities:</b>											
Net Income	(19,612)	(3,790)	(3,434)	(3,096)	(3,715)	(14,035)	(9,571)	(87)	5,708	20,551	32,461
D&A	24	49	48	130	185	411	942	1,609	3,199	4,746	6,091
Stock-based Compensation	8,410	951	233	324	-	1,508	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Accretion of Lease Liability	-	-	(86)	9	-	(77)	-	-	-	-	-
Change in Non-cash WC	548	(1,983)	101	(447)	(138)	(2,468)	(670)	(3,791)	(3,836)	(8,594)	(4,987)
<b>Net Cash From Op. Activities</b>	<b>(10,630)</b>	<b>(4,773)</b>	<b>(3,138)</b>	<b>(3,081)</b>	<b>(3,668)</b>	<b>(14,660)</b>	<b>(9,300)</b>	<b>(2,268)</b>	<b>5,071</b>	<b>16,704</b>	<b>33,565</b>
<b>Investing Activities:</b>											
Acquisition of PP&E	(58)	(108)	(159)	(982)	(750)	(2,000)	(3,000)	(7,725)	(11,246)	(12,239)	(11,930)
Acquisition of Patents	(178)	(36)	(61)	(29)	-	(126)	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Cash Used In Inv. Activities</b>	<b>(247)</b>	<b>(197)</b>	<b>(766)</b>	<b>(1,656)</b>	<b>(750)</b>	<b>(3,369)</b>	<b>(3,000)</b>	<b>(7,725)</b>	<b>(11,246)</b>	<b>(12,239)</b>	<b>(11,930)</b>
<b>Financing Activities:</b>											
Share Issuance	-	9,246	292	-	-	9,538	20,000	-	-	-	-
Proceeds From Options	325	73	1,758	-	-	1,831	2,625	7,000	-	-	-
Proceeds From Warrants	5,964	763	-	901	-	1,664	-	-	-	-	-
Repayment Of Borrowings	-	-	-	-	-	-	-	-	-	-	-
Proceeds From Borrowings	-	-	-	-	-	-	-	-	-	-	-
<b>Cash Used In Fin. Activities</b>	<b>6,289</b>	<b>10,082</b>	<b>2,049</b>	<b>901</b>	<b>-</b>	<b>13,032</b>	<b>22,625</b>	<b>7,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change In Cash Position</b>	<b>(4,589)</b>	<b>5,112</b>	<b>(1,855)</b>	<b>(3,836)</b>	<b>(4,418)</b>	<b>(4,997)</b>	<b>10,325</b>	<b>(2,993)</b>	<b>(6,174)</b>	<b>4,465</b>	<b>21,634</b>

Source: Company Reports; Cormark Securities Inc.

**Figure 25 DCF Model**

Years Ended December 31 (\$000s)	2018	2019E	2020E	2021E	2022E	2023E	2024E
<b>Operating Activities:</b>							
Adjusted EBIT	(11,197)	(12,518)	(13,013)	(108)	7,775	27,971	44,174
Taxes	-	-	3,448	29	(2,060)	(7,412)	(11,706)
EBIT(1-t)	(11,197)	(12,518)	(9,564)	(80)	5,715	20,559	32,468
Depreciation	24	411	942	1,609	3,199	4,746	6,091
Capital Expenditures	(58)	(2,000)	(3,000)	(7,725)	(11,246)	(12,239)	(11,930)
Working Capital	548	(2,468)	(670)	(3,791)	(3,836)	(8,594)	(4,987)
Terminal Value Reinvestment Adjustment	-	-	-	-	-	-	4
	(10,683)	(16,574)	(12,293)	(9,986)	(6,167)	4,472	21,645
Terminal Value						410,860	
DCF Factor			0.18	0.92	0.84	0.73	
Present Value	-	-	(2,250)	(9,183)	(5,194)	302,292	
PV of FCFF	285,665						
Book Value of Balance Sheet Debt	(641)						
Cash	21,944						
= Value for Shareholders	306,969						
<b>Value per FD Share</b>	<b>1.52</b>						
<b>Terminal Value Growth</b>	<b>5.0%</b>						
<b>Terminal Value ROC</b>	<b>15.0%</b>						
<b>Weighted Average Cost of Capital (WACC) Calculation</b>							
Debt Component of Cost of Capital	0.0%						
+ Equity Component of Cost of Capital	10.3%						
= WACC	10.3%						
<b>Debt Component of Cost of Capital Calculation</b>							
Book Value of Debt Incl. Op Lease / Firm Value	641						
/ Total Firm Value	285,665						
Debt % of Firm Value	0.2%						
x Interest Rate on Debt	1.5%						
x (1 - Effective Tax Rate)	100.0%						
= Debt Component of Cost of Capital	0.0%						
<b>Equity Component of Cost of Capital Calculation</b>							
Market Value of Equity	167,378						
/ Total Firm Value	285,665						
Equity % of Firm Value	99.8%						
x Cost of Equity	10.3%						
= Equity Component of Cost of Capital Calc	10.3%						
<b>Cost of Equity Calculation</b>							
Risk Free Rate	2.54%						
Beta	1.30						
Market Risk Premium	6.0%						
= Cost of Equity	10.3%						

Source: Company Reports; Cormark Securities Inc.

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**Recommendation Terminology**

Cormark's recommendation terminology is as follows:

**Top Pick** our best investment ideas, the greatest potential value appreciation  
**Buy** expected to outperform its peer group  
**Market Perform** expected to perform with its peer group  
**Reduce** expected to underperform its peer group  
**Tender** clients are advised to tender their shares to a takeover bid  
**Not Rated** currently restricted from publishing, or our recommendation is under review

Our ratings may be followed by "(S)" which denotes that the investment is *speculative* and has a higher degree of risk associated with it.

Additionally, our target prices are based on a 12-month investment horizon.

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A full list of our disclosure statements as well as our research dissemination policies and procedures can be found on our web-site at: [www.cormark.com](http://www.cormark.com)

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**Analyst Certification**

I, David Ocampo, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

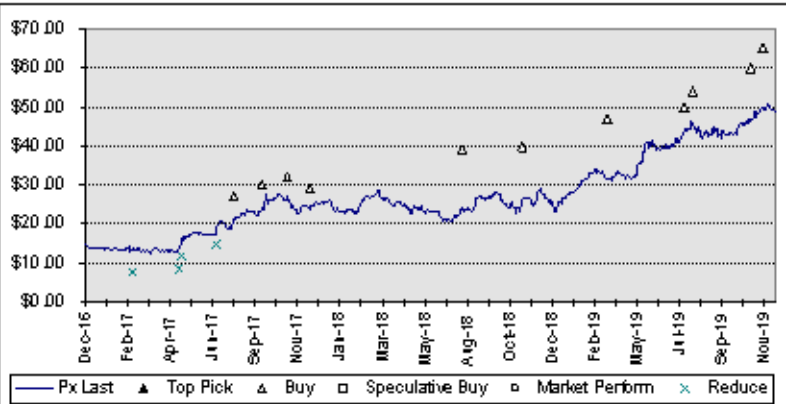
**Figure 26 Air Canada – Disclosure Chart**

**Air Canada**

Updated January 06, 2020

**Price Chart and Disclosure Statement**

\*Information updated monthly on or about the 5th of each month.



*Cormark has this percentage of its universe assigned as the following:		*Over the past 12 months, the following percentage of issuers whose securities received a "Top Pick" or "Buy", a "Market Perform", or a "Reduce" rating from Cormark Securities Inc., have engaged Cormark to provide investment-banking services during this period.	
<i>Buy or Top Pick</i>	66%	<i>Buy or Top Pick</i>	25%
<i>Market Perform</i>	13%	<i>Market Perform</i>	9%
<i>Reduce or Tender</i>	1%	<i>Reduce or Tender</i>	25%
<i>Not Rated</i>	20%		

Recommendation / Target Chg Date	C\$
19-Nov-19	65.00 (B)
30-Oct-19	60.00 (B)
31-Jul-19	54.00 (B)
18-Jul-19	50.00 (B)
18-Mar-19	47.00 (B)
18-Mar-19	47.00 (Chng Cover)
19-Nov-18	- (U.R.)
01-Nov-18	40.00 (B)
30-Jul-18	39.00 (B)
18-Feb-18	34.00 (B)
29-Nov-17	29.00 (B)
26-Oct-17	32.00 (B)
15-Sep-17	30.00 (B)
02-Aug-17	27.00 (B)
06-Jul-17	15.00 (R)
11-May-17	12.00 (R)
08-May-17	8.50 (R)
21-Feb-17	8.00 (R)

During the last 12 months, has CSI provided financial advice to and/or, either on its own or as a syndicate member, participated in a public offering, or private placement of securities of the subject issuer?  Yes  No

During the last 12 months, has the analyst of this company received compensation from a pool that included investment banking revenues from the subject issuer earned by CSI?  Yes  No

During the last 12 months, has CSI received compensation for having provided investment banking services to the subject issuer?  Yes  No

Does CSI expect to receive compensation for investment banking services from the subject issuer in the next three months?  Yes  No

Does the analyst or any individual responsible for the preparation of this research, or a member of that person's household, have a financial interest in the debt or equity securities of the subject issuer?  Yes  No

1) Is it a long and/or short position?

2) What type of security is it?

Does CSI beneficially own 1% or more of any class of the subject issuer's equity securities?  Yes  No

Has the analyst viewed the material operations of the subject issuer?  Yes  No

Does the analyst or CSI have any other material conflict of interest with the subject issuer?  Yes  No

If YES

During the last 12 months, has any partner, director or officer of CSI or any analyst involved in the preparation of this report provided services to the subject issuer for compensation or other remuneration?  Yes  No

If YES, name of person(s) who provided services:

Does CSI have any employee or agent who serves as an officer, director or employee, or who serves in any advisory capacity to the subject issuer?  Yes  No

If YES, name of person(s) who provided services:

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Source: Cormark Securities Inc.



**Figure 27 Cargojet Inc. – Disclosure Chart**

**Cargojet Inc.**

Updated January 06, 2020

**Price Chart and Disclosure Statement**

\*Information updated monthly on or about the 5th of each month.



\*Over the past 12 months, the following percentage of issuers whose securities received a "Top Pick" or "Buy", a "Market Perform", or a "Reduce" rating from Cormark Securities Inc., have engaged Cormark to provide investment-banking services during this period.

<i>Buy or Top Pick</i>	66%	<i>Buy or Top Pick</i>	25%
<i>Market Perform</i>	13%	<i>Market Perform</i>	9%
<i>Reduce or Tender</i>	1%	<i>Reduce or Tender</i>	25%
<i>Not Rated</i>	20%		

Recommendation / Target Chg	Date	C\$
	26-Aug-19	120.00 (B)
	03-Jul-19	105.00 (B)

During the last 12 months, has CSI provided financial advice to and/or, either on its own or as a syndicate member, participated in a public offering, or private placement of securities of the subject issuer?  Yes  No

During the last 12 months, has the analyst of this company received compensation from a pool that included investment banking revenues from the subject issuer earned by CSI?  Yes  No

During the last 12 months, has CSI received compensation for having provided investment banking services to the subject issuer?  Yes  No

Does CSI expect to receive compensation for investment banking services from the subject issuer in the next three months?  Yes  No

Does the analyst or any individual responsible for the preparation of this research, or a member of that person's household, have a financial interest in the debt or equity securities of the subject issuer?  Yes  No

If YES

1) Is it a long and/or short position?

2) What type of security is it?

Does CSI beneficially own 1% or more of any class of the subject issuer's equity securities?  Yes  No

Has the analyst viewed the material operations of the subject issuer?  Yes  No

Does the analyst or CSI have any other material conflict of interest with the subject issuer?  Yes  No

If YES

During the last 12 months, has any partner, director or officer of CSI or any analyst involved in the preparation of this report provided services to the subject issuer for compensation or other remuneration?  Yes  No

If YES, name of person(s) who provided services:

Does CSI have any employee or agent who serves as an officer, director or employee, or who serves in any advisory capacity to the subject issuer?  Yes  No

If YES, name of person(s) who provided services:

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Source: Cormark Securities Inc.



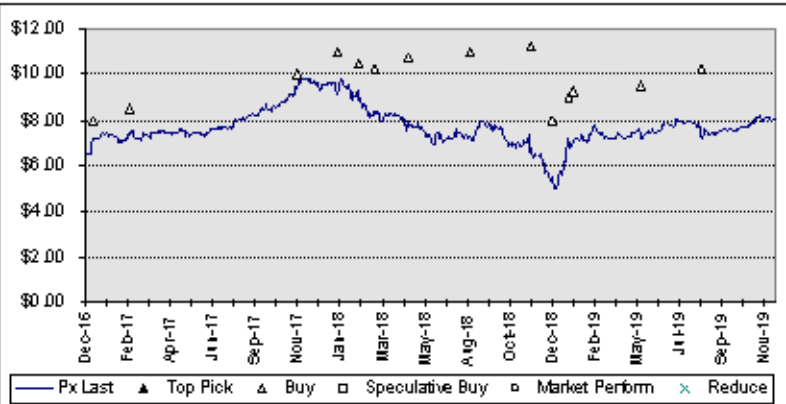
**Figure 28 Chorus Aviation Inc. – Disclosure Chart**

**Chorus Aviation Inc.**

Updated January 06, 2020

**Price Chart and Disclosure Statement**

\*Information updated monthly on or about the 5th of each month.



*Cormark has this percentage of its universe assigned as the following:		*Over the past 12 months, the following percentage of issuers whose securities received a "Top Pick" or "Buy", a "Market Perform", or a "Reduce" rating from Cormark Securities Inc., have engaged Cormark to provide investment-banking services during this period.	
Buy or Top Pick	66%	Buy or Top Pick	25%
Market Perform	13%	Market Perform	9%
Reduce or Tender	1%	Reduce or Tender	25%
Not Rated	20%		

Recommendation / Target Chg Date	C\$
14-Aug-19	10.25 (B)
09-May-19	9.50 (B)
22-Jan-19	9.25 (B)
15-Jan-19	9.00 (B)
20-Dec-18	8.00 (B)
20-Dec-18	8.00 (Chng Cover)
19-Nov-18	- (U.R.)
15-Nov-18	11.25 (B)
10-Aug-18	11.00 (B)
07-May-18	10.75 (B)
13-Mar-18	10.25 (B)
16-Feb-18	10.50 (B)
15-Jan-18	11.00 (B)
09-Nov-17	10.00 (B)
17-Feb-17	8.50 (B)

During the last 12 months, has CSI provided financial advice to and/or, either on its own or as a syndicate member, participated in a public offering, or private placement of securities of the subject issuer?  Yes  No

During the last 12 months, has the analyst of this company received compensation from a pool that included investment banking revenues from the subject issuer earned by CSI?  Yes  No

During the last 12 months, has CSI received compensation for having provided investment banking services to the subject issuer?  Yes  No

Does CSI expect to receive compensation for investment banking services from the subject issuer in the next three months?  Yes  No

Does the analyst or any individual responsible for the preparation of this research, or a member of that person's household, have a financial interest in the debt or equity securities of the subject issuer?  Yes  No

1) Is it a long and/or short position?

2) What type of security is it?

Does CSI beneficially own 1% or more of any class of the subject issuer's equity securities?  Yes  No

Has the analyst viewed the material operations of the subject issuer?  Yes  No

Does the analyst or CSI have any other material conflict of interest with the subject issuer?  Yes  No

If YES

During the last 12 months, has any partner, director or officer of CSI or any analyst involved in the preparation of this report provided services to the subject issuer for compensation or other remuneration?  Yes  No

If YES, name of person(s) who provided services:

Does CSI have any employee or agent who serves as an officer, director or employee, or who serves in any advisory capacity to the subject issuer?  Yes  No

If YES, name of person(s) who provided services:

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Source: Cormark Securities Inc.



**Figure 29 Drone Delivery Canada Corp. – Disclosure Chart**

**Drone Delivery Canada Corp.**

Updated January 06, 2020

**Price Chart and Disclosure Statement**

\*Information updated monthly on or about the 5th of each month



\*Over the past 12 months, the following percentage of issuers whose securities received a "Top Pick" or "Buy", a "Market Perform", or a "Reduce" rating from Cormark Securities Inc., have engaged Cormark to provide investment-banking services during this period.

<i>Buy or Top Pick</i>	66%	<i>Buy or Top Pick</i>	25%
<i>Market Perform</i>	13%	<i>Market Perform</i>	9%
<i>Reduce or Tender</i>	1%	<i>Reduce or Tender</i>	25%
<i>Not Rated</i>	20%		

Recommendation / Target Chg	Date	C\$
	07-Jan-20	1.50 (B-S)

During the last 12 months, has CSI provided financial advice to and/or, either on its own or as a syndicate member, participated in a public offering, or private placement of securities of the subject issuer?  Yes  No

During the last 12 months, has the analyst of this company received compensation from a provider that included investment banking revenues from the subject issuer earned by CSI?  Yes  No

During the last 12 months, has CSI received compensation for having provided investment banking services to the subject issuer?  Yes  No

Does CSI expect to receive compensation for investment banking services from the subject issuer in the next three months?  Yes  No

Does the analyst or any individual responsible for the preparation of this research, or a member of that person's household, have a financial interest in the debt or equity securities of the subject issuer?  Yes  No

If YES

1) Is it a long and/or short position?

2) What type of security is it?

Does CSI beneficially own 1% or more of any class of the subject issuer's equity securities?  Yes  No

Has the analyst viewed the material operations of the subject issuer?  Yes  No

Does the analyst or CSI have any other material conflict of interest with the subject issuer?  Yes  No

If YES

During the last 12 months, has any partner, director or officer of CSI or any analyst involved in the preparation of this report provided services to the subject issuer for compensation or other remuneration?  Yes  No

If YES, name of person(s) who provided services:

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