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VISIBILITY

RESEARCH UPDATE

ANALYST

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MARKET DATA

TICKER	VRD.V
FISCAL YEAR	DECEMBER
SECTOR	ALTERNATIVE ENERGY
RECENT PRICE	\$0.48
TARGET PRICE	\$1.00
MARKET CAP	\$14.5M
52-WEEK HIGH - LOW	\$0.73 - \$0.20
PRICE/EARNINGS (TTM)	N/A
PRICE/BOOK (MRQ)	N/A
PRICE/SALES (TTM)	N/A
SHARES OUTSTANDING	30.3M
FLOAT	21.4M
AVG DAILY VOLUME (3 MOS)	6,493
INSIDER OWNERSHIP	29.5%

As of September 21, 2010



Viridis Energy Inc. (TSX: VRD.V)

SEPTEMBER 22, 2010 | TARGET PRICE: \$1.00 | RATING: BUY

Q2 RESULTS DRIVEN BY ACQUISITIONS, GROWTH MOMENTUM EXPECTED TO CONTINUE IN 2H10 AND FY11

Viridis Energy's ("VRD" or the "Company") 2Q10 results were largely driven by the Company's recent acquisitions of Cypress Pacific Marketing, Okanagan Pellet and Monte Lake Forest Products. Although the Company has reported a loss at the operating level, it has reported a healthy gross margin of 21.9%. With these acquisitions, the Company has transitioned to a vertically integrated player and we expect the Company to derive significant synergies and benefits going forward.

Lowering our FY10 revenue estimate: Based on the 2Q10 results we are lowering our FY10 revenue estimate from C\$14.95 million to C\$11.50 million, lower than Company guidance of C\$13.8 million. The business is seasonal and most of the sales are realized during the winter months. Further, although the reported revenues of C\$2.2 million in the first half of the year (1H10) were lower as contribution from Westwood and Cypress was included for 2 months and 3.5 months respectively, the results were significantly lower than our expectations. This has not materially impacted our valuation for VRD and we are maintaining our revenue forecast for FY11-13 as we believe that full contribution of the acquired businesses will result in substantial growth going forward.

Insider buying during the quarter: During the quarter, insider holdings increased by the following number of shares given in the table below.

Name	Buy/Sell	No. of Shares	Date
GARDNER ROBERT	Buy	200,000	5/14/2010
HEIMBECKER ROBERT J	Buy	50,000	5/14/2010
CAMPBELL JOHN	Buy	1,500	4/9/2010
CAMPBELL JOHN	Buy	1,500	4/9/2010
CAMPBELL JOHN	Buy	5,000	4/9/2010
CAMPBELL JOHN	Buy	5,500	4/1/2010

Source: Bloomberg

Strong inorganic growth in 1H10: VRD completed three acquisitions during 1H10. In April 2010, VRD acquired 100% of Monte Lake Forest Products, which gave the company timber licenses and required infrastructural amenities to set up a production mill which would increase the capacity of the company.



In March 2010, the Company acquired Okanagan Pellet Company to include a leading wood pellet brand Okanagan and a supply source of fiber to its existing business operations. On March 8, 2010, the Company acquired Cypress Pacific Marketing to bolster its upstream distribution operations.

Vertical integration to drive margin improvement: With the acquisitions VRD has a vertically integrated business model, which would enhance the company gross margins to roughly 22% compared to 14% gross margins in the case of a pure manufacturing model. Margins are also expected to improve once the Company starts using a higher proportion of ‘beetle-kill’ wood, which is cheaper than the waste wood, as a raw material source.

New raw material purchase commitments to mitigate risks: VRD operates in an environment where raw material supply disruption is a key risk. To mitigate this risk, the Company has secured purchase commitments, which would help the company offset volatilities in raw material sourcing. The company currently has raw material purchase agreements worth C\$1.8 million and C\$1.5 million for FY10 and FY11 respectively.

In June 2009, Viridis Energy (VRD) completed the sale of its prior business operations (Advanced monitoring and control systems related to electric utilities). Viridis also finished the acquisitions of Cypress and Okanagan Pellet in March 2010 and April 2010 respectively. Therefore 2Q10 and 1H10 results are not comparable to corresponding periods in the previous year.

VRD reported revenue of C\$2 million in 2Q10, an increase of 130% YoY, driven by Cypress acquisition on March 8, 2010. The Company’s performance also includes 2 months results of Okanagan Pellet, which Viridis acquired on April 30, 2010. Overall for 1H10, total revenues stood at C\$2.2mn as revenues were insignificant in 1Q10 (C\$0.15mn) due to being in the initial stages of its wood pellets operations.

Cost of sales was C\$1.56 million as compared to C\$0.5 million during the same quarter in the previous year. Gross margin for 2Q10 was at 21.9% (exceeding our 2010 gross margin estimates of 18%). This is on account of vertical integration benefits due to the Cypress and Okanagan Pellet acquisitions.

2nd Quarter Summary		
	2Q10 Actual Results	YOY % Change
Revenue	2	130.40%
Gross Profit	0.4	19.20%
Gross Margin	21.90%	-48.30%
Operating Income	-0.9	150.30%
Operating Margin	-43.90%	8.60%
Net Income	1.9	23.80%
Net Margin	92.90%	-46.30%
EPS	0.08	-63.90%

*in US\$ millions, except percentage and EPS data
Source: Company Filings*

Operating expenses recorded were C\$1.32 million as compared to C\$0.72 million during the same previous year. Along with the increase in recurring expenses to support higher scale of operations, expenses also include one-time items such as professional fees, filing and transfer fees.

Operating income was -C\$0.9 million in 2Q10 (-C\$1.5 million for 1H10). However, we expect the Company to turn around and report positive operating income for FY10 due to higher revenue contribution from 2H10 (Company’s FY10 revenue guidance was C\$13.8 million).

The Company reported a net profit of C\$1.9 million, after accounting for the gain from Okanagan Pellet



acquisition (C\$2.8 million).

Cash flow from operating activities was -C\$1.4 million during the quarter (-C\$1.6 million in 1H10). The operations have been financed by new equity capital infusion. The Company, as a part of its financing activity raised capital of C\$4.51 million during 2Q10 (C\$4.56 million in 1H10). Cash flow from investing (primarily for acquisition of Okanagan Pellet) was C\$3.04 million in 2Q10 (C\$5.04 million in 1HFY10).

On July 23, 2010, the Company completed the second and third tranches of its private placement and issued 2,886,000 units at C\$0.50 per unit yielding proceeds of C\$1.4 million net of share issue costs.

Balance Sheet and Liquidity Summary	
	2Q10
Working Capital	-1.6
Short-term debt	4.2
Long-term debt	1.4

in US\$ millions

Source: Company Filings

OUTLOOK

Biomass is an attractive renewable energy industry: The Company operates in an attractive biomass industry that does not depend on subsidies like the solar or wind industries. The wood pellet industry is still in its infancy and is likely to grow due to regulatory drivers such as the Kyoto Protocol and the European Union's renewable energy targets.

Usage of 'Beetle kill' wood to secure supply and improve margins: According to British Columbia's Ministry of Environment, an infestation of mountain pine beetles is expected to destroy 78% of pine forests in British Columbia by 2015. However, this comes as a boom for the industry, which gets access to cheap and secure source of raw material. Beetle kill wood is generally cheaper and has a very stable and predictable supply than that of the waste-wood from the saw mills.

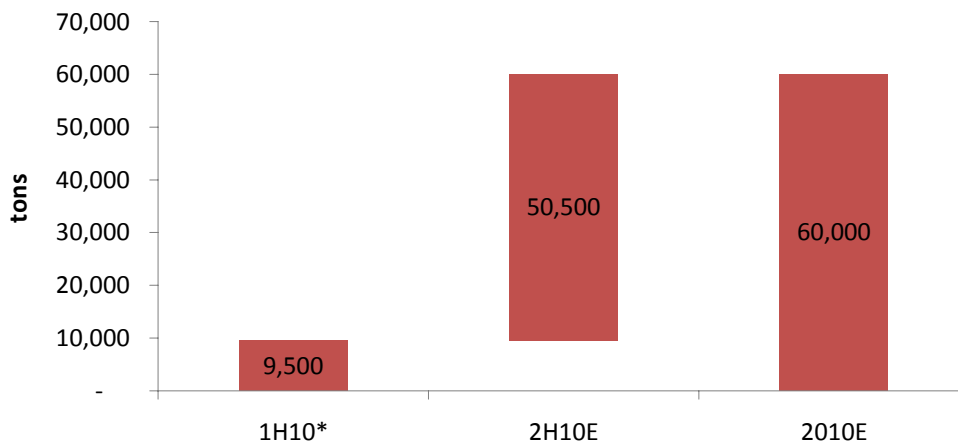
Consumption trends within the North American region to stay strong: Production and consumption trends in the North American region are expected to stay healthy as households and industries try to cut down their carbon footprints. North America contributed more than 50% of the total production of wood pellets in 2009. New capacities are expected to come on stream in the US in order to cater to the domestic demand and rising export demand.

Potential opportunity in the form of European/Asian demand: In 2009, out of the total global production of 13 million tons, Europe consumed more than 60%. It is expected that, total consumption by European countries to go up to 50 million tons per year by 2020. We expect that Europe is going to be one of the key markets in the long run and the company is already in discussion with distributors to secure bulk orders from the region. Additionally the Company is also targeting to export 5,000 to 10,000 tons to Asia in 2010.



Financial outlook: We have revised our sales volume estimate for FY10 to 50,000 tons as compared to our earlier estimate of 65,000 tons due to weak 1H10 results. Based on the average selling price of C\$230/ton, we estimate the 1H10 volume as 9,500 tons. This is significantly lower than the Company's year-end target of 60,000 tons. The business is seasonal and most of the sales are realized during the winter months. Hence we expect 3Q10 and 4Q10 volumes will be substantially higher than 1H10. Additionally, the volumes during 1H10 were lower as Cypress and Westwood were consolidated only for 3.5 and 2 months respectively. During 2H10, we believe that their full contribution along with strong demand will enable VRD to record substantially higher volumes.

Volumes: comparison of 1H10 vs full year target

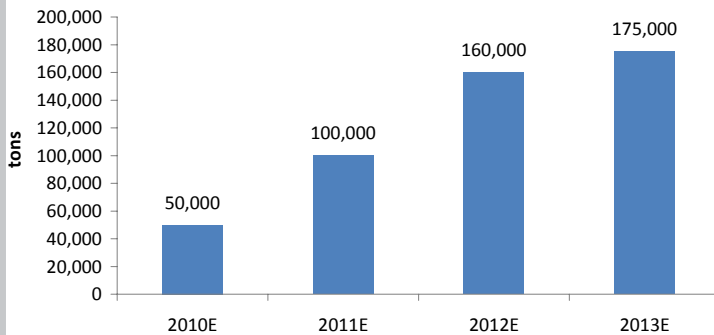


*approximate volume based on C\$230/ton price assumption

Source: RedChip Estimates, Company Data

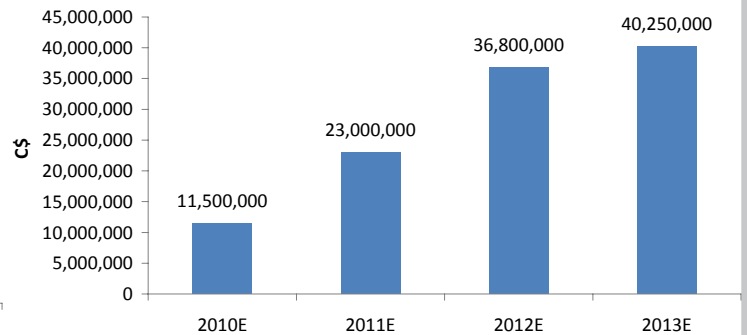
As a result of our downward revision in volumes, we have lowered our FY10 revenue estimate to C\$11.5 million from earlier C\$14.95 million.

Total volumes



Source: RedChip estimates

Revenues



Source: RedChip estimates



Our forecasts for FY11-13 remain unchanged as we have positive outlook for the sector due to the following reasons:

- The wood pellet industry in North America is in its infancy with huge demand potential
- There are growing environmental concerns over the use of conventional fossil fuels
- Wood pellets or biomass industry scores high over the solar industry which depends on subsidies and also over wind energy which is an intermittent resource

Therefore we believe VRD will be able to achieve 52% CAGR revenue growth during FY10-13. We are confident that the Company will be able to expand its geographic footprint across North America and additionally explore other export avenues to augment their domestic sales.

Our estimates for gross margins are conservative and we have assumed 18% gross margins in FY10 and FY11 growing to 22% in FY13. The Company has already recorded 22% gross margins in 1H10 on the back of Westwood acquisition.

Due to the downward revision in FY10 estimates our revised net profit estimate is C\$603,750 as compared to the earlier estimate of C\$784,875. We estimate that net income will grow at 64% CAGR during FY10-13 rising from C\$0.6 million to C\$2.7 million.

Valuation and Recommendation: We have revised our FY10 estimates downward but our FY11-13 estimates remain unchanged. This has not materially impacted our valuation for VRD as we have used DCF method for valuation. Following is the summary of DCF valuation:

We maintain our \$1.00 price target and Buy rating on the stock.

Options/ Warrants outstanding: During the quarter, the company issued 9.11 million warrants at C\$0.50 each as a part of its private placement program. These warrants carry a weighted average exercise price of C\$0.75.

	No. of Warrants	Weighted Average Exercise price (C\$)	Weighted Average no. of years to expiry
Balance as on December 31, 2009	-	-	-
Warrants issued	9,114,404	0.75	1.87
Balance as on June 30, 2010	9,114,404	0.75	1.87

Source: Company Filings



Quarterly Income Statement

All Figures in US\$ ending in 000 except share data

FY ending December 31,	1Q10	2Q10
Revenue	153,261	2,003,592
Cost of Revenues	(164,902)	(1,563,889)
Gross profit	(11,641)	439,703
Operating expenses		
SG&A	(603,837)	(1,220,348)
EBITDA	(615,478)	(780,645)
D & A	-	(99,188)
Income from operations	(615,478)	(879,833)
Interest income	-	-
Interest expense	(5,486)	(88,656)
Profit before tax (Pre-exceptional)	(620,964)	(968,489)
Other Income	-	2,829,815
Other expense	-	(639)
Income before taxes	(622,674)	1,860,687
Tax Provision	-	-
Net income	(622,674)	1,860,687
Net Income attributed to non-controlling interest	-	-
Net income attributed to shareholders of the parent company	(622,674)	1,860,687
Basic number of shares outstanding	14,110,105	22,986,433
EPS (basic)	(0.04)	0.08
Diluted number of shares outstanding	14,110,105	23,040,884
EPS (diluted)	(0.04)	0.08



Quarterly Balance Sheet		
All Figures in USD ending in 000		
FY ending December 31,	1Q10	2Q10
ASSETS		
Current assets		
Cash & Cash Equivalents	-	-
Account Receivable	328	1,289
Income taxes recoverable	-	45
Intercompany Receivable	45	-
Other Receivable	5	5
Inventory	790	3,181
Prepaid expenses	47	381
Deposits	-	-
Total current assets	1,215	4,901
Deferred acquisition costs	30	-
Property plant and equipment	8	6,983
Goodwill	4,848	4,848
Total assets	6,102	16,733
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank Advances	1,960	1,844
Accounts Payable	1,247	2,262
Advances	27	-
Customer Deposits	5	-
Income taxes payable	-	-
Other payable	-	-
Advances from shareholders	205	133
Current portion of long term debt	15	2,220
Other loan	14	10
Total current liabilities	3,474	6,468
Long term debt	11	1,420
Total liabilities	3,484	7,888
Equity	-	-
Share Capital	11,615	12,389
Contributed surplus-stock options	497	497
Contributed surplus	183	3,776
Accumulated other comprehensive loss	(433)	(433)
Retained earnings	(9,244)	(7,383)
Total Equity	2,618	8,845
Total liabilities & stockholders' equity	6,102	16,733



Quarterly Cash Flow Statement

All Figures in USD ending in 000

FY ending December 31,

1Q10

2Q10

	1Q10	2Q10
Cash flow from operating activities		
Net earnings for the period	(623)	1,861
Amortization of equipment and leased assets	-	99
Gain on acquisition of business	-	(2,909)
Amortization	-	-
Stock based compensation	317	-
	(306)	(949)
Changes in non-cash working capital items		
Accounts receivable	(19)	239
Other receivable	25	-
Inventory	(107)	(1,001)
Intercompany receivable	-	-
Prepaid expenses	(13)	(87)
Deposits	-	-
Accounts payable	218	392
Due to related parties	5	-
Customer deposits	-	-
Income taxes payable	-	-
	110	(458)
Cash Flows used in Operating activities	(196)	(1,407)
Cash Flows from Investing Activity		
Purchase of property, plant and equipment	-	(34)
Cash transferred upon acquisition of business operations	(1,967)	(3,008)
	(30)	-
Cash Flows used in Investing activity	(1,997)	(3,042)
Cash flows from financing activities		
Equity raised	50	4,507
Adjustment entry	-	-
Repayment of obligations under capital lease	-	(20)
Repayment of promissory note	-	-
Repayment of loan	-	(5)
Advances from (to) shareholders	(25)	(72)
(Repayments) proceeds from long-term debt	(2)	295
Share issue cost	(3)	(140)
Increase/decrease in bank advances	-	-
Cash flows from financing activities	21	4,565
Decrease in Cash and Cash Equivalents	(2,173)	116



Projected Income Statement

All Figures in US\$ ending in 000 except share data

FY ending December 31,

	1Q10	2Q10	FY10E	FY11E
Revenue	153,261	2,003,592	11,500	23,000
Cost of Revenues	(164,902)	(1,563,889)	(9,430)	(18,860)
Gross profit	(11,641)	439,703	2,070	4,140
Operating expenses				
SG&A	(603,837)	(1,220,348)	(1,150)	(2,760)
EBITDA	(615,478)	(780,645)	920	1,380
D & A	-	(99,188)	(115)	(230)
Income from operations	(615,478)	(879,833)	805	1,150
Interest income	-	-	-	-
Interest expense	(5,486)	(88,656)	-	-
Profit before tax (Pre-exceptional)	(620,964)	(968,489)	805	1,150
Other Income	-	2,829,815	-	-
Other expense	-	(639)	-	-
Income before taxes	(622,674)	1,860,687	805	1,150
Tax Provision	-	-	(201)	(288)
Net income	(622,674)	1,860,687	604	863
Net Income attributed to non-controlling interest	-	-	-	-
Net income attributed to shareholders of the parent company	(622,674)	1,860,687	604	863
Basic number of shares outstanding	14,110,105	22,986,433	23,018,463	30,279,398
EPS (basic)	(0)	0	0	0
Diluted number of shares outstanding	14,110,105	23,040,884	23,018,463	30,279,398
EPS (diluted)	(0)	0	0	0



Projected Balance Sheet

All Figures in USD ending in 000

FY ending December 31,

	1Q10	2Q10	FY10E	FY11E
ASSETS				
Current assets				
Cash & Cash Equivalents	-	-	250	250
Account Receivable	328	1,289	2,300	4,600
Income taxes recoverable	-	45	-	-
Intercompany Receivable	45	-	864	864
Other Receivable	5	5	58	115
Inventory	790	3,181	1,415	2,829
Prepaid expenses	47	381	-	-
Deposits	-	-	15	15
Total current assets	1,215	4,901	4,901	8,673
Deferred acquisition costs	30	-	-	-
Property plant and equipment	8	6,983	6,983	9,753
Goodwill	4,848	4,848	4,848	4,848
Total assets	6,102	16,733	16,732	23,274
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Bank Advances	1,960	1,844	153	3,947
Accounts Payable	1,247	2,262	1,886	3,772
Advances	27	-	-	-
Customer Deposits	5	-	-	-
Income taxes payable	-	-	65	65
Other payable	-	-	-	-
Advances from shareholders	205	133	321	321
Current portion of long term debt	15	2,220	2,220	2,220
Other loan	14	10	-	-
Total current liabilities	3,474	6,468	4,645	10,325
Long term debt	11	1,420	1,420	1,420
Total liabilities	3,484	7,888	6,065	11,745
Equity				
Share Capital	11,615	12,389	13,185	13,185
Contributed surplus-stock options	497	497	497	497
Contributed surplus	183	3,776	3,776	3,776
Accumulated other comprehensive loss	(433)	(433)	(433)	(433)
Retained earnings	(9,244)	(7,383)	(6,357)	(5,495)
Total Equity	2,618	8,845	10,667	11,530
Total liabilities & stockholders' equity	6,102	16,733	16,732	23,274



Projected Cash Flow Statement
All Figures in USD ending in 000
FY ending December 31,

	1Q10	2Q10	FY10E	FY11E
Cash flow from operating activities				
Net earnings for the period	(623)	1,861	604	863
Amortization of equipment and leased assets	-	99	-	-
Gain on acquisition of business	-	(2,909)	-	-
Amortization	-	-	115	230
Stock based compensation	317	-	-	-
	(306)	(949)	719	1,093
Changes in non-cash working capital items				
Accounts receivable	(19)	239	(455)	(2,300)
Other receivable	25	-	(24)	(58)
Inventory	(107)	(1,001)	(243)	(1,415)
Intercompany receivable	-	-	-	-
Prepaid expenses	(13)	(87)	-	-
Deposits	-	-	-	-
Accounts payable	218	392	1,089	1,886
Due to related parties	5	-	-	-
Customer deposits	-	-	-	-
Income taxes payable	-	-	-	-
	110	(458)	368	(1,886)
Cash Flows used in Operating activities	(196)	(1,407)	1,087	(794)
Cash Flows from Investing Activity				
Purchase of property, plant and equipment	-	(34)	(3,750)	(3,000)
Cash transferred upon acquisition of business operations	(1,967)	(3,008)	(3,337)	-
Deferred acquisition cost	(30)	-	-	-
Cash Flows used in Investing activity	(1,997)	(3,042)	(7,087)	(3,000)
Cash flows from financing activities				
Equity raised	50	4,507	5,000	-
Adjustment entry	-	-	(250)	-
Repayment of obligations under capital lease	-	(20)	-	-
Repayment of promissory note	-	-	-	-
Repayment of loan	-	(5)	-	-
Advances from (to) shareholders	(25)	(72)	-	-
(Repayments) proceeds from long-term debt	(2)	295	3,586	-
Share issue cost	(3)	(140)	-	-
Increase/decrease in bank advances	-	-	(2,145)	3,794
Cash flows from financing activities	21	4,565	6,192	3,794
Decrease in Cash and Cash Equivalents	(2,173)	116	193	-

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RedChip Visibility Coverage Universe		
Rating	Number of Covered Companies	Percentage of Universe
Strong Buy	3	12.0%
Buy	15	60.0%
Speculative Buy	6	24.0%
Hold	0	0.0%
Sell	1	4.0%

RedChip Rating System**STRONG BUY**

The current price reflects a substantial discount from the market and from its peers, and the company does not possess significant financial risk within its risk category. Future growth potential is undervalued relative to the company's stock price. The analyst believes the stock at current levels represents a compelling opportunity for capital gains over the time period to its target price.

BUY

The current price reflects a discount from the market and from its peers, and the company does not possess significant financial risk within its risk category. The analyst believes the stock at current levels will provide an opportunity for capital gains over the period of its target price. Several factors can indicate an undervaluation of the company's shares.

SPECULATIVE BUY

The current price appears to offer potential gains though risk is considerably higher given its risk category. There may be insufficient historical data or clear-cut prospects to warrant a "Buy," but the analyst believes that the long run prospects of the Company are positive. The analyst believes its risk reward ratio advocates purchase of the stock. In the short term, the stock may be subject to high volatility and continue to trade at a discount to its market.

HOLD

The analyst is unable to assign a buy rating due to a number of specified factors noted in the report. These include the stock being fairly valued relative to its peers and the market, or the company may have risks that make it potentially unsuitable for investment within its risk category. Similarly there are no currently known compelling factors that would warrant selling. The analyst will remain neutral pending developments.

SELL

The analyst believes that the Company is overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward given its risk category. An investment in the company may produce below market returns and/or deficits.

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