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VISIBILITY INITIAL REPORT



Viridis Energy Inc. (TSX: VRD.V)

JULY 29, 2010 | TARGET PRICE: \$1.00 | RATING: BUY

A high growth, vertically integrated company providing premium softwood pellets in the North American market.

COMPANY OVERVIEW

Viridis Energy Inc. (“VRD” or the “Company”) is a Vancouver, British Columbia, Canada-based green technology company operating in the biomass space. With the recent divestment of its utility-focused solution business, VRD has transformed into a full-fledged vertically integrated wood pellets company. It has pursued an inorganic growth strategy and acquired Vancouver-based Cypress Pacific Marketing, a wood pellet distributor, in 2009 and British Columbia-based wood pellet manufacturers Westwood Fibre Products Inc. and Monte Lake Forest Products Inc. in 2010. As of December 31, 2009, Cypress employed 9 full-time employees. The Company has 250 active customers comprising retail chains (Ace Hardware, DoItBest, TruValu) and distributors. The Company markets its premium wood pellet products under the Okanagan Pellets, Clean Burn, Surefire and Dragon Mountain brands. It focuses on the Northeast region of U.S. and East Canada and has aggressive growth plans to expand throughout the North American market.

ANALYST

Mahesh Joshi, CFA

MARKET DATA

TICKER	VRD.V
FISCAL YEAR	DECEMBER
SECTOR	ALTERNATIVE ENERGY
RECENT PRICE	\$0.52
TARGET PRICE	\$1.00
MARKET CAP	\$15.7M
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	8.5M
AVG DAILY VOLUME (3 MOS)	6,932
INSIDER OWNERSHIP	32.0%

As of July 28, 2010



INVESTMENT RATIONALE

Strong revenue growth opportunity in an attractive market: 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. The Company is an attractive growth play and is expecting to grow its revenues by a CAGR of 56% from \$6 million in 2009 to \$40 million in 2013. EBIT is expected to grow from \$0.6 million in 2009 to about \$3.6 million in 2013, a CAGR of 67%. This growth will be achieved primarily by expanding in the North American retail market (roughly \$700 million) and tapping into the global market (\$130.5 billion) over the next few years.

Aggressive growth plans through strategic acquisitions: The Company plans to raise capital to make acquisitions both downstream (distribution) and upstream (wood pellet manufacturing). The Company acquired wood pellet distributor Cypress Pacific in 2009 for \$2.8 million. In March 2010, it raised



\$5 million in a equity private placement to acquire Westwood, a wood pellet manufacturing company in Canada. Viridis is expected to continue actively scouting for acquisitions that will provide access to fiber via 10- to 15-year term supply contracts, securing its supply of raw materials.

The "beetle-kill" wood opportunity: 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. This would translate into 400 million cubic meters of dead wood, which could be an abundant source of raw material for wood pellet manufacturing. The technology to manufacture pellets from "beetle-kill" wood is already operational in Europe, and the Company intends to deploy this technology to manufacture its own wood pellets. It employs a sophisticated wood chipper that is the key aspect of the manufacturing process. This will diversify the supply of raw material for the Company from the traditional waste wood generated in saw mills.

Margins set to improve due to vertical integration and use of beetle-kill wood: The Company's gross margins are expected to improve due to increased vertical integration. Gross margins in wood pellets manufacturing and distribution are roughly 15% and 14%, respectively, whereas in a vertically integrated business, combining manufacturing and distribution, gross margins rise to roughly 22%. By acquiring Westwood Fibre Products Inc. the Company has moved upstream to complement its strong distribution arm – Cypress Pacific Marketing. The Westwood facility has capacity to produce 50,000 tons of wood pellets per annum. Viridis has also acquired a new business and land at Monte Lake, which is just one hour away from Westwood and is near a rail siding (leading to savings in freight costs). This new business is also expected to produce 50,000 tons of wood pellets per annum. Margins are likely to expand further as the Company uses relatively cheaper beetle-kill wood as raw material for manufacturing wood pellets.

Potential opportunity from industrial demand: The main use of wood pellets is as an alternative fuel for heating. The wood pellet market has another big opportunity in the form of providing biomass fuel to utility companies. While there are some European utilities that burn biomass along with coal, the trend is only starting in North America. In March 2010 Ontario Power Generation (OPG), one of North America's largest electric utilities, has invited tenders for the conversion of its coal-fired generating units to agricultural and forest-based biomass. The wood pellet tender calls for supply of over 1 million tons of wood pellets for its Atikokan station in northwestern Ontario starting in 2012. We expect this trend to catch on in other North American utilities as they try to reduce their carbon footprints.

Valuation upside: Our DCF-based price target for the Company is \$1.00 per share, representing a potential upside of 92% from the recent market price of \$0.52 per share. We believe Viridis has strong growth potential in its business segment in the next five years, hence representing a good investment opportunity in the alternative energy space.

INVESTMENT HIGHLIGHTS

Company operates in the attractive clean technology industry: VRD is a clean technology company operating in the biomass (specifically wood pellets) space. Burning biomass is CO₂ neutral, as the CO₂ emitted during burning is absorbed by growing biomass. Because it is an effective substitute for costly



fossil fuels, the demand for wood pellets is growing fast. Moreover, biomass is attractive as compared to other renewable energy sources. Unlike the solar industry, it does not depend on subsidies to be profitable. Similarly, wind as a resource is intermittent and also depends on tax incentives to be profitable. In comparison, the wood pellet industry offers lucrative double-digit (approximately 22%) gross margins without the support of subsidies. Viridis plans to take advantage of these value propositions and expand its operations significantly over the next four years.

Vertical integration and capacity expansion helps tapping profit pools across the value chain: In 2009 the Company acquired Cypress Pacific Marketing, a pellet wood distributor with 250 active clients serving a network of 15,000 retail stores. In 2010 it acquired Westwood Fibre Products Inc., a manufacturing plant with a capacity of 50,000 tons per annum. Thus the Company's operations now span across the value chain (both in manufacturing as well as in distribution).

The manufacturing model operates at 14% gross margins while the integrated model operates at 22% gross margins. Margins are expected to improve further once the Company starts using a higher proportion of 'beetle-kill' wood, which is cheaper than the waste wood, as a raw material source.

The Company is looking at the feasibility of raising the manufacturing capacity of the Westwood plant from its current 50,000 tons to 75,000 tons in 2011. In addition, VRD has acquired the Monte Lake facility, where it wants to construct capacity of 50,000 tons per annum. Prior to the acquisition, Cypress was Westwood's largest customer, accounting for around 35% of the plant's output. While the Company will continue to sell to third parties, its in-house consumption is likely to increase, improving its profit margins.

Securing long-term supply of raw material for stable operations: There are two sources of raw material for the wood pellet plants: waste-wood from sawmills and beetle-kill wood. The availability of the sawmill output is dependent on economic conditions and may cause supply disruptions. Beetle-kill wood, on the other hand, represents an abundant source of raw material supply. It is estimated that the pests will decimate about 78% of pine forests in British Columbia by 2015, resulting in huge supply potential for the wood pellet industry. The Company wants to deploy the sophisticated technology in its Monte Lake facility to process the beetle-kill wood, which will considerably reduce its dependence on the sawmill waste.

Cypress is currently in discussions with organizations that are in the process of obtaining or have obtained government contracts for several hundred thousand cubic meters of beetle-kill wood. These licenses, typically with the First Nations communities in British Columbia, run for 10 to 15 years. The Company intends to work with one or more of these organizations in order to access a significant supply of beetle-kill wood. This will ensure a long-term supply of raw materials for its upcoming pellet manufacturing facilities.

Strong brand proposition to target retail market expansion throughout North America: With the acquisition of Cypress, VRD now owns four strong brands: Okanagan pellets, Clean Burn, Dragon Mountain and Surefire. These are premium brands and the Company has around 250 active customers representing over 15,000 retail stores. The Company plans to spend \$1-2 million in 2010 towards sales channel development with its 250 customers to deepen relationships. This will be achieved by scheduling monthly on-site visits to the larger co-op customers (such as Ace Hardware, DoItBest, and TruValu) and quarterly visits to regional dealers.



Cypress' current focus is on the northeastern markets in the U.S. and eastern Canada. It targets pellet stove dealers and Home & Hearth stores and currently sells to major hardware chains like Ace, Do-it-Best, and TruValu. The Company plans to bank upon its brands to expand into the untapped retail markets of North America. The Company intends to spend \$1 million in FY10 for expansion into new markets. This will be achieved through the addition of several new regional salespeople as well as the purchase of dealer databases and other sales tools. Viridis also intends to expand its presence in "big box" household stores like Home Depot, Lowes, etc. to cater to the increased demand for wood pellets in the winter months from September to March.

Long-term potential opportunities in utilities and European market: The Company currently is focused on the retail residential heating market in the North American region. However, there are two potential big opportunities which could lead to very high demand pull for the wood pellet industry. The first opportunity is in the form of supply to utilities who want to augment coal firing with some amount of biomass. This practice is currently prevailing in Europe and there are some examples (Ontario Power Generation) of utilities in North America that have shown keen interest.

The second opportunity is in the form of exports to Europe, driven by European environmental regulations and their ambitious renewable energy targets. There are already some large players, such as Canada-based Pinnacle Pellets, which exports its production to European customers. The majority of wood pellet exporting players are located in the western province of British Columbia, giving them easy access to ocean ports and supply networks. However, these are long term opportunities for the Company starting in 2012-13, once it has fully tapped the domestic retail market.

INVESTMENT RISKS

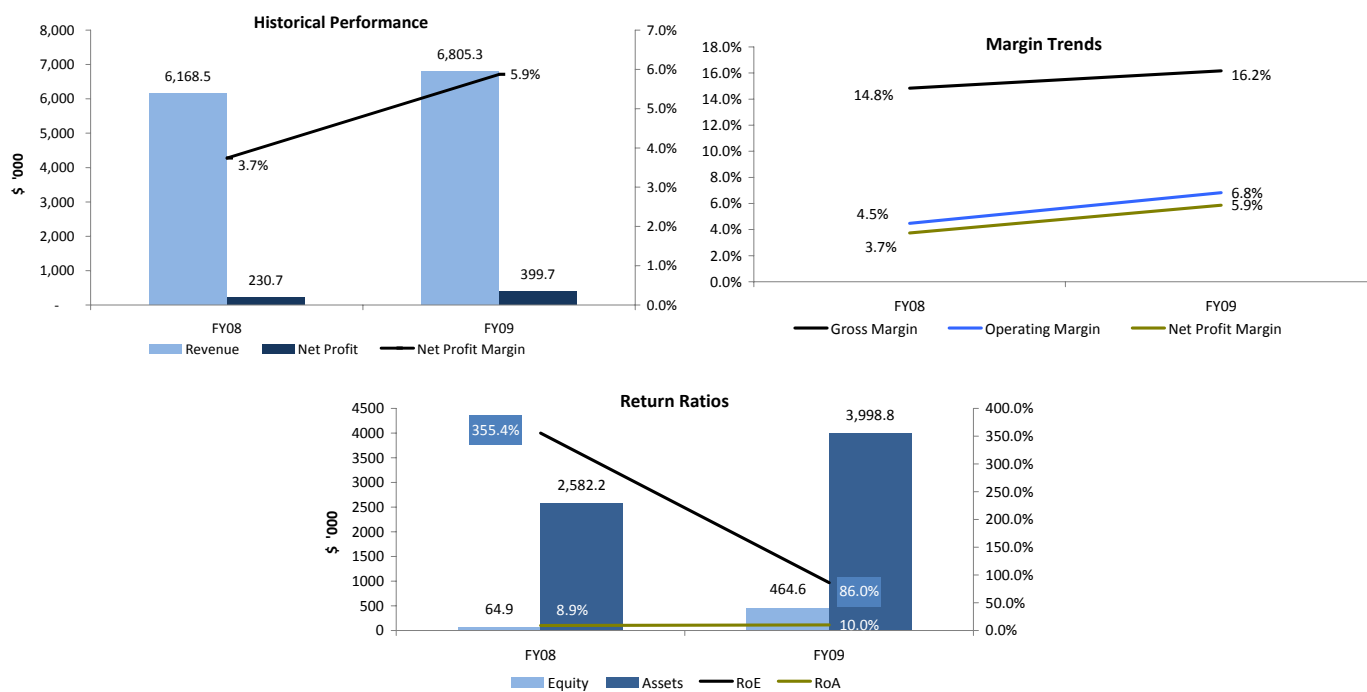
Informal raw material supply contracts: Cypress has informal contracts for supply of raw material, which could result in a shortage of raw material at some point in the future. Cypress currently has a contracted supply of 80,000 tons of wood pellets per year supplied by four separate mills in western Canada and Washington State. With respect to three of the mills, Cypress has informal agreements to take as much wood pellet supply as is available at any particular point in time: (a) with respect to a mill located in Alberta, Cypress can take up to 12,000 tons per year as required; (b) with respect to a mill located in British Columbia, Cypress can take between 5,000 to 10,000 tons per year, as available; and (c) with respect to a mill located in Washington State, Cypress can take between 5,000 and 10,000 tons per year, or more as Cypress requires. With respect to the remaining mill, Cypress has entered into a one-year formal supply agreement dated April 1, 2009 with Westwood Fibre, pursuant to which Cypress was originally supplied with up to 3,000 tons per month (now verbally amended for a supply of up to 4,500 tons per month). These informal contracts may lead to shortage of raw material. However, for its new facility in Monte Lake, it has secured a timber license from the government.

Successful integration of acquired businesses: The Company has already made acquisitions in the distribution and manufacturing segments, and the key challenge of successfully integrating the operations of the new businesses still remains. Failure to do so puts the Company at risk of not achieving the full potential synergy benefits.



Any future regulation to ban cutting of trees: Even though usage of biomass is carbon neutral, some environmentalists may argue against cutting of beetle-kill wood and advocate outright bans or heavy restrictions on cutting trees. Such actions would result in an acute shortage of raw material for the wood pellet manufacturing business. However, we believe it is a low-probability risk as dead biomass is detrimental to environment.

FINANCIAL SNAPSHOT



Company Financials	FY08 Actual	FY09 Actual	FY10 Company Guidance	FY10 Redchip Estimates
Revenue (\$)	6,168,523	6,805,340	13,800,000	14,950,000
Gross Profit (\$)	915,453	1,100,016	2,484,000	2,691,000
Gross Margin	14.8%	16.2%	18.0%	18.0%
Net Profit (\$)	230,704	399,733	758,321	784,875
Net Margin	3.7%	5.9%	5.5%	5.3%
EPS (\$)	N/A	N/A	N/A	0.03

* FY08 - FY ending Feb 2009

**FY09 9 months ending Nov 2009

Source: Company filings and RedChip estimates

MARKET OVERVIEW: NORTH AMERICAN WOOD PELLET MARKET

Wood pellets are used as an alternative fuel for heating purposes. The wood pellet industry and its usage as an energy source are in their relative infancy in North America. The growth in recent years is mainly on the back of rising costs of fossil fuels. However, clean energy policies and initiatives aimed at reducing CO₂ emissions can influence industry-wide demand in a significant way.

Capacity and production: In 2008, total North American installed capacity was 4.2 million tons, up from 1.1 million in 2003. Capacity was expected to have reached 6.2 million tons in 2009 if the entire announced capacity comes on stream.

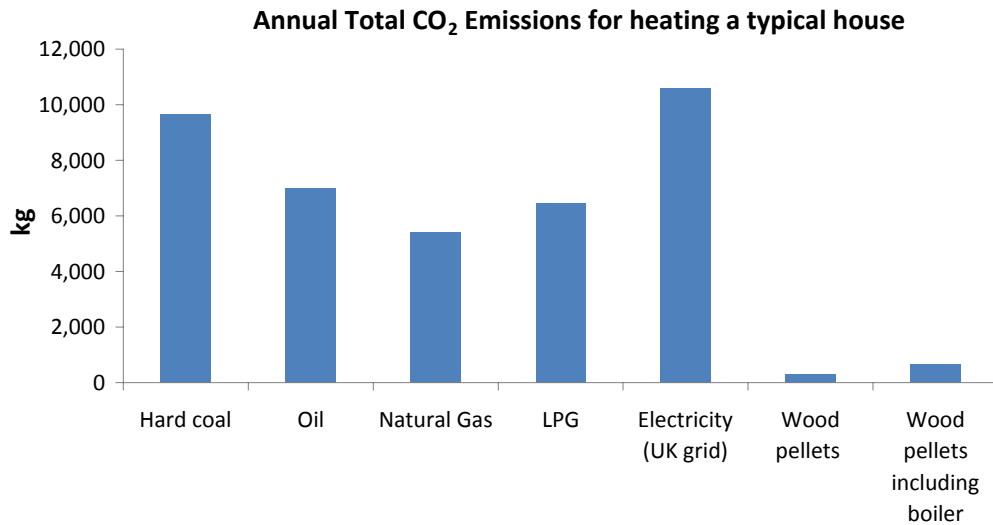
Wood-pellet production in the United States in 2008 amounted to 1.8 million tons, which accounted for 66% of installed capacity. Within the United States, the South accounted for the largest share (46%), followed by the Northeast (24%), the West (16%), and the Midwest (14%). In Canada, estimated production was 1.4 million tons, which was about 81% of installed capacity. The lower capacity utilization in the United States was a result of the addition of new plants at the end of 2008. Normal start-up problems limit output in the first few quarters of a plant's life, thus affecting capacity utilization. In both countries, limited fiber availability due to reduced sawmill activity also constrained some operations in 2008-09.

End markets: Over 80% of U.S. pellets in 2008 were shipped to domestic destinations. The balance was exported to Europe, which is a growing trend. This was further boosted by new large plants dedicated to the exports business. In contrast, almost 90% of Canadian shipments were exported, mainly to Europe. Canadian firms were first to recognize the export market potential to European power plants, which explains the higher proportion of exports as a percentage of production. Reflecting this difference in markets, most U.S. pellets were placed in 18-kilogram (40-pound) sacks, whereas over 80% of Canadian volume was shipped in bulk. Bulk shipments usually require volumes of at least 10,000 tons, thus favoring larger firms in the export market.

Plant size: The salient feature of most North American pellet plants is their relatively small size in comparison with pulp, board, or power plants. This is a result of a business model that is dependent on the utilization of waste from sawmills and other wood processing plants. Geographic proximity to such sources of fiber is important because the relatively low bulk densities and high moisture content of those wastes make transportation over long distances difficult.

Fiber supply sources: Wood residue fiber comes from two major sources: primary woodworking plants such as sawmills and plywood mills and secondary woodworking plants such as furniture and millwork factories. Over two-thirds of the fiber used in pellet manufacturing was sawmill residue. Other secondary wood manufacturing facilities such as furniture and millwork factories supplied 14% of fiber. 16% was green material sourced from pulpwood or logging residues.

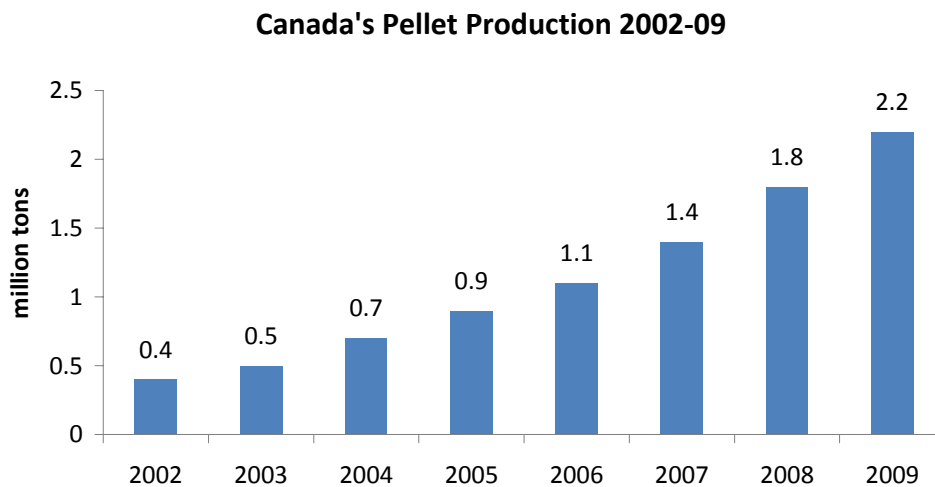
Comparison with other sources: The following chart shows the annual CO₂ emissions of various types of fuel used to heat a typical house. The emissions from wood pellet resources are considerably lower compared to coal and electricity, which presents an incentive to substitute fossil fuels.



Canada market

The manufacturing and export of wood pellets from Canada has grown exponentially, primarily on the West coast. There are 29 pellet plants in Canada, with around 50% located in the province of British Columbia. The combined production capacity of these mills is roughly 2.2 million tons.

These plants are being built to take advantage of the mill residues in British Columbia and also the huge potential supply of beetle-kill wood and other dead biomass.

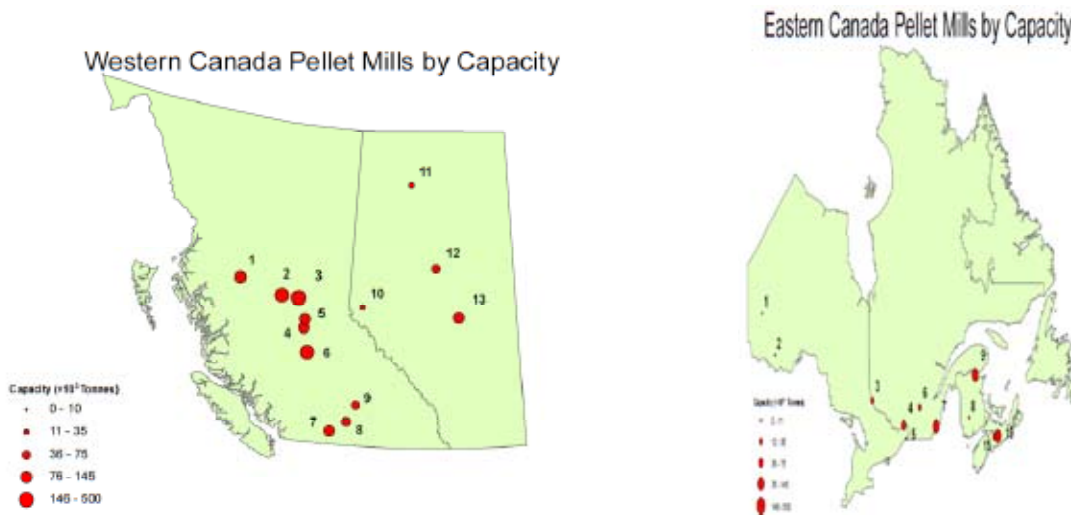


For companies in British Columbia, the market is primarily Europe as they are close to ocean ports. Companies in Alberta and Quebec export mainly to the US as they are not near ocean ports. British Columbia alone is expected to produce 3 million tons in 2010. A key driver of this growth is the vast amount of pine forests affected by pine beetles in the region. In the past, the pests have been killed by low winter temperatures, but warmer winters are allowing it to survive and devastate a vast area of forest. Roughly 8.5 million hectares, representing over 400 million cubic meters of timber, are expected to be affected by 2015. While destructive for Canada's ecosystem, the infestation represents a prime opportunity for biomass processing companies.

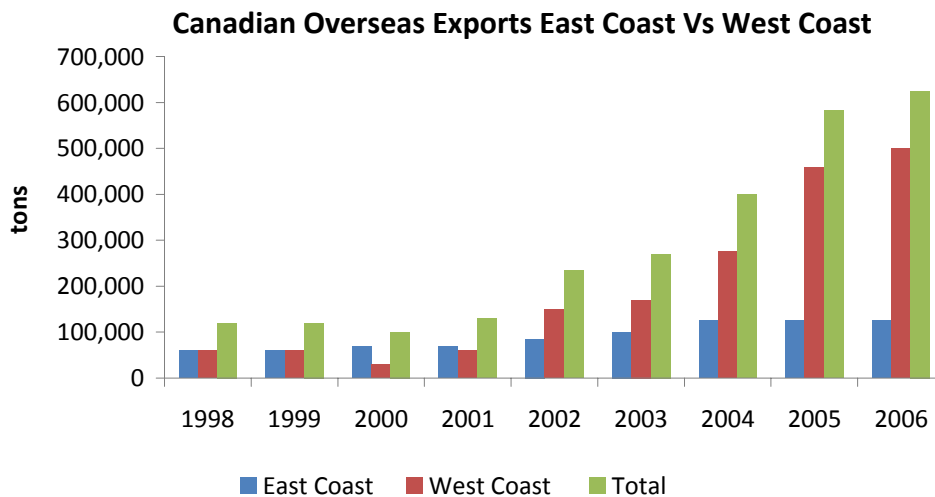
Pellet plants in Canada:

The concentration of pellet plants in Canada is in the Western region, which provides access to ocean ports to cater to the export markets. The West coast plants are also characterized by their larger size as compared to eastern region.

The following charts depict the details of the plants in the Western and Eastern regions. The details of number-wise pellet plants shown below are provided in Appendix 2.



The graphic below shows the comparison of West vs. East coast exports. The exports from the West coast have grown rapidly, with a CAGR of 53% during 2001-2006. Their share of the total exports has increased from 50% in 1998 to roughly 80% in 2006.



US market: In the US, the demand for wood pellets is primarily for residential heating. In 2004-05 there were around 60 mills in the US producing in excess of 800,000 tons per year.

Green Circle Bio Energy Inc. has built the world's largest wood pellet plant in North Florida, which

commenced production in May 2008 with an annual capacity of 560,000 tons. Its production is targeted mainly for export to the European Union.

Pellet plant locations in the US: Until the end of 2007 US plants were producing mainly for domestic consumption. However, there are a number of plants proposed in the Southeast region which may export their production to Europe.



Outlook: The overall demand outlook for the wood pellet industry is positive. Currently it forms a very small part of the residential heating industry. Electrical heating is used as the primary source of heat in over 30 million homes in the US but it is the least energy-efficient means of space heating. Further, conventional firewood stoves are less convenient and are more polluting. Wood pellets are expected to substitute these sources, driven by incentives to buy pellet stoves. Apart from this residential sector demand, the industrial sector, which is currently using pellets in trial form, could also generate huge demand. The policy environment aiming to reduce carbon emissions is likely to drive wood pellet demand in the long term.

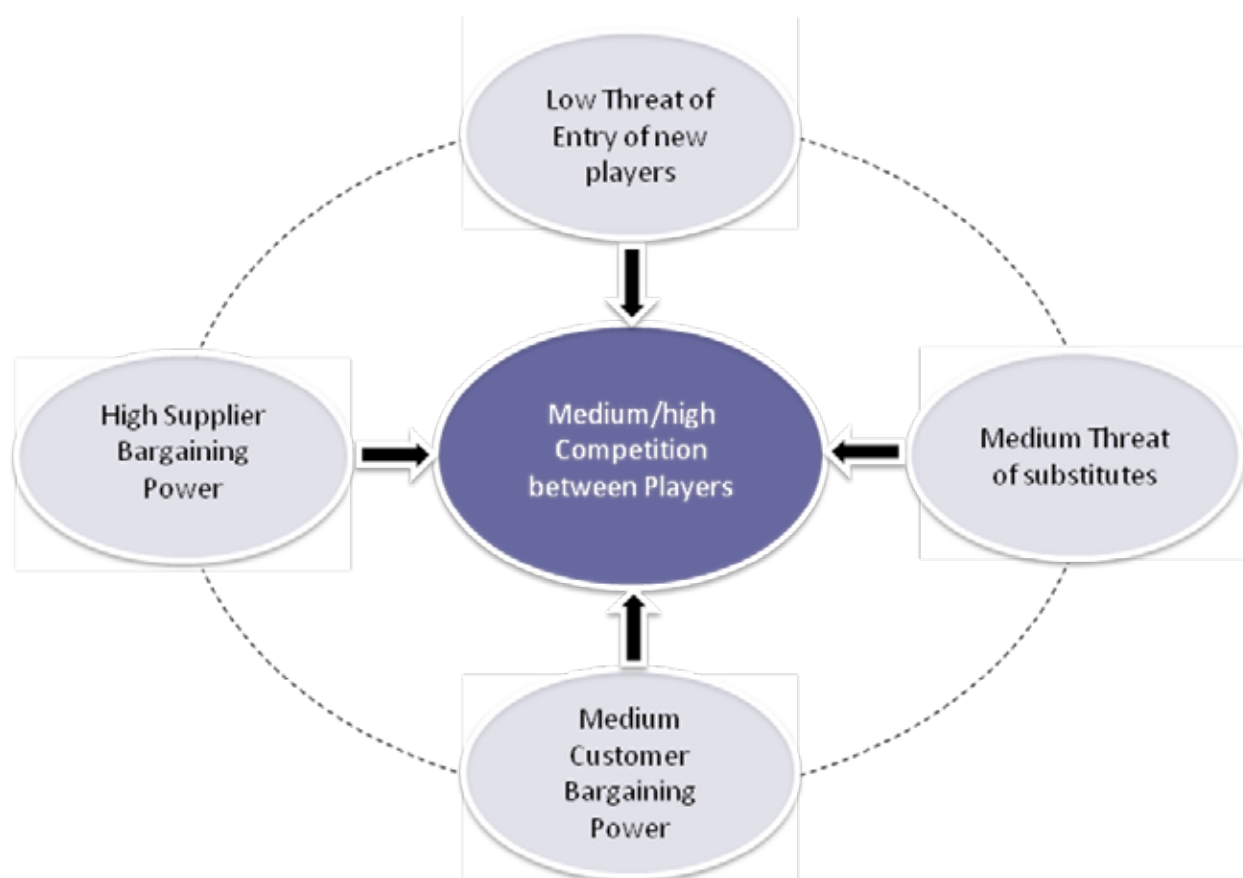
POLICY ENVIRONMENT SUPPORTING THE WOOD PELLET MARKETS

Kyoto Protocol: The Kyoto Protocol is an international agreement aimed at reducing greenhouse gas emissions. It was adopted in 1997 and became effective on February 16, 2005. It contains legally binding obligations for developed countries to reduce their greenhouse gas emissions by at least 5% below 1990 levels between 2008 and 2012. For EU countries, this target was set at 8%.

Bioenergy is a significant option for the signatory states in accomplishing their Kyoto targets, because in contrast to fossil fuels, the use of biomass does not result in net CO₂ emissions. This is because the CO₂ released through the consumption of biomass is absorbed by the growing biomass.

European Union renewables target: Currently, the European Union (EU) meets about 4% of its energy demand through biomass consumption. In March 2007 the European Union member states agreed to a 20% binding target by 2020 for renewable energy sources. Biomass will be the main contributor toward achieving that target, since wood fuels (including wood pellets) are the most readily available biomass form in most of European countries. In addition, bioenergy trade (imports) represents a great opportunity to achieve even higher shares.

WOOD PELLET INDUSTRY'S PORTERS FIVE FORCE MODEL



Competition: The competitive intensity of the wood pellet industry is medium to high since there are no major entry barriers and the market is growing and attractive. There are small wood pellet manufacturers who are dependent on sawmill output for their production. Despite the competition, rapid growth in North American retail demand and European exports demand have caused supplies to be easily absorbed by the market.

Customers & Supplier bargaining power: The commodity nature of wood pellets gives customers tremendous bargaining power. The real challenge will be to supply to large power plants who demand better quality (particle size limitations will be a key aspect for complete burning) at a much lower price. The suppliers of fiber really hold the key, and any supply disruptions will have an adverse impact on manufacturers.



Entry of new players: From a demand perspective, the market can absorb new entrants. There are no entry barriers; however, it is not easy to build vertically integrated operations and to get long-term tie-ups for fiber.

Threat of substitutes: The industry may face a threat from raw wood products if their usage increases in small boilers where bigger wood pieces are acceptable. The wood pellets themselves are potential substitutes for fossil fuels but may need regulatory drivers (reduction in CO2 emissions) to push their case.

CRITICAL SUCCESS FACTORS

Access to fiber source: One of the most important considerations for the wood pellet manufacturing business is access to raw material fiber. Shortage of fiber can cause demand/supply imbalance, as recently evidenced during 2008-09 recession. There is a possibility to secure 10- to 15-year-long contracts with governments or local First Nations for supply of raw material that would ensure smooth operations.

Technology to process “beetle-kill” wood: Beetle-kill wood, or dead biomass, represents an abundant source of raw material for the industry. It is expected that around 78% of the pine forests in British Columbia, Canada will be decimated by the pest by 2015. The technology to process beetle-kill wood employs a sophisticated wood chipper and is presently deployed in Europe. Further beetle-kill wood is relatively cheaper than waste wood.

Vertical integration: Vertical integration or presence along the value chain (manufacturing and distribution) has two advantages: first, it ensures enough supply of wood pellets for distribution, and second, it helps to tap the profits in both activities. Both activities have around 15% operating margins, and the combined effect is 22% overall margin.

Proximity to transport networks: The West Canadian pellet operators have an advantage over the Eastern players in terms of access to ocean ports. Thus they are able to ship their output to Europe, which has huge demand potential.

COMPETITION

VRD competes with players within biomass industry and other traditional and alternative energy sources (solar and wind, excluding biomass).

VRD’s competition within biomass industry: The competitive intensity in the wood pellet market is relatively medium-high. The market is fragmented and characterized by small players having capacity less than 1 million tons. The market potential is relatively huge and can absorb increased supply. There is also scope for supplying to European markets where the demand is from retail heating and power plant segments.

The key competitors for VRD are Pinnacle Pellets and Energex in Canada and Lignetics and New England

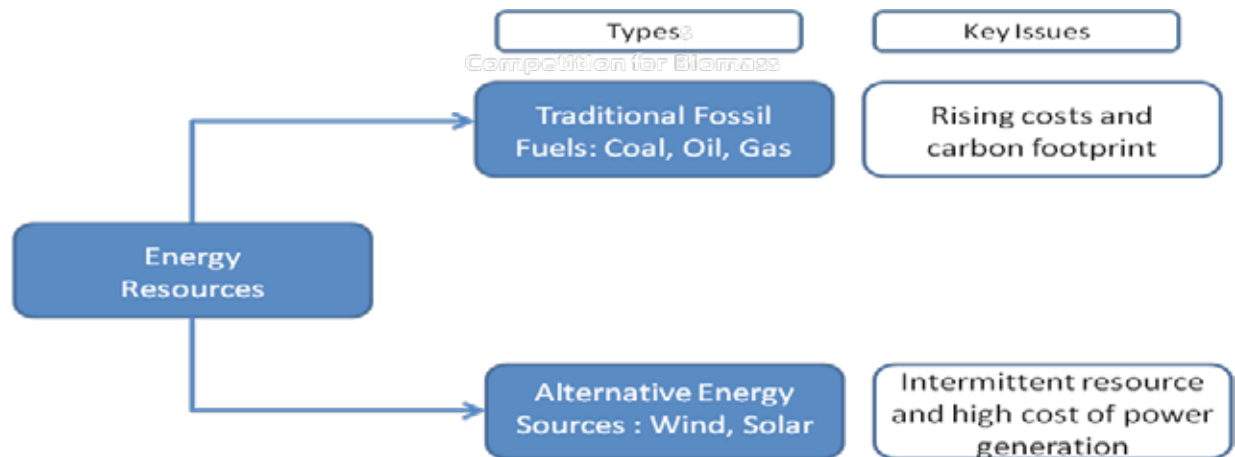
Wood Pellets in the U.S.

The Company competes with other distributors as well as with some wood pellet mills who market directly. Cypress' current principal competitors are Wood Pellets.com LLC, an affiliate of American Biomass Distribution LLC, Energex Pellet Fuel Inc. in Quebec, and Pinnacle Pellets in BC. The latter two companies are also manufacturers of wood pellets. Pinnacle Pellet is not a direct competitor of Cypress, as the majority of its product is exported to Europe.

Competitor	Annual Capacity	Description
Pinnacle Pellet	700,000	Located in central British Columbia, Canada; in operation for over twenty years, the longest established pellet plant in operation in Western Canada; access to road, rail and sea ports; exports to European markets
Energex Pellet Fuel, Inc.	200,000	Began operations in 1993; operates two plants in Quebec and Pennsylvania; products cater to residential as well as industrial sector
New England Wood Pellet	168,000	Founded in 1992 ; operates two manufacturing plants in Jaffrey, NH and Schuyler, NY; products sold for residential and industrial applications
Green Circle Bio Energy Inc.	560,000	Started production in 2008; pellets are supplied to the power generating industry for co-firing in coal-based power plants

VRD's competition from traditional and other alternative energy sources:

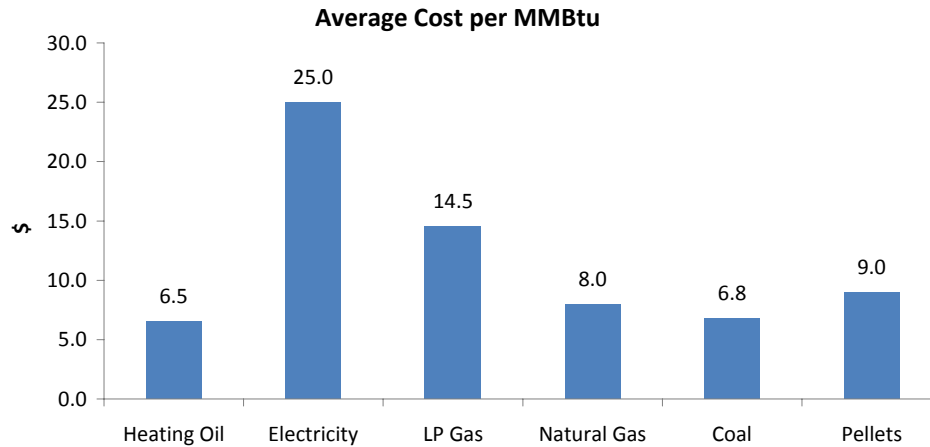
We believe VRD competes with players in two different segments: 1) traditional fossil fuels such as coal, oil and gas, and 2) other alternative energy sources like wind and solar (excluding biomass)



Comparison with traditional energy sources:

Traditional fossil fuel sources create significantly more pollution than biomass. Burning oil, gas, and coal generates very high carbon emissions, whereas biomass combustion is carbon-neutral. Underpinned by policy initiatives and favorable regulation, a marked shift is occurring toward the use of alternative energy resources such as wind, solar and biomass. However, the cost of such energy sources restricts their full-fledged use. However, considering the rising cost of fossil fuels and constant reductions in technology costs, green energy sources are becoming more economically attractive.

The chart below compares the average cost of various fuel sources. Wood pellets are more expensive than coal, which is a heavy pollutant, but cheaper than electricity, which is the main source of heating in homes.



Source: Pelletheat.org

Comparison with alternative energy resources: The markets for wind and solar power are well-developed compared to the biomass market. However, they depend on various policy incentives for achieving profitable operations. Wind energy is not a predictable resource and depends on the immediate availability of wind. Its load factor is very low, roughly 30%, and hence it requires installation of capacity three times greater than the required output. Solar cells are expensive to manufacture, and hence the cost of generation is not very competitive. Solar also depends on availability of sunlight to maintain a respectable energy density.

Below, we compare pros and cons of various renewable resources.

Comparison of Alternative Energy Resources			
	Wind	Solar	Biomass
Energy Density	Low	Low	Moderate
Predictability	Low	Low	High
Load Factor	25-35%	10-20%	High
Visual Impact	Moderate	Unobtrusive	High
Potential Sites	Limited	Limited for high energy density	Extensive
Cost per kWh Utility Power	4-5 cents	10-25 cents	n.a.

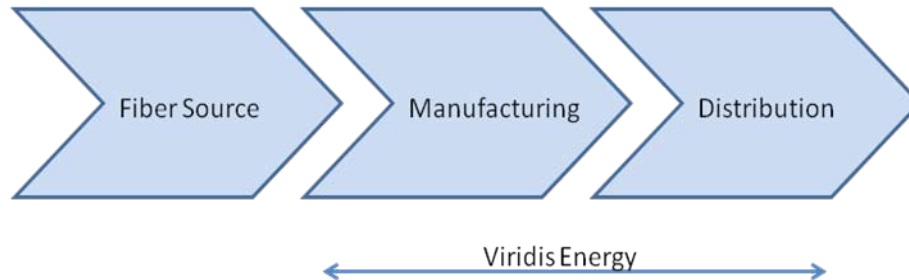
In conclusion, we believe that the wood pellet segment is an attractive biomass space which does not depend on subsidies and has very high potential as a substitute to traditional fossil fuel resources.

COMPANY OVERVIEW

Viridis Energy Inc. is a renewable energy company operating in the biomass market. In the past it operated as a utility solutions provider, but it has since discontinued that business model. It now operates as a manufacturer and distributor of wood pellets. Its presence in the wood pellet industry is due largely to a series of acquisitions in quick succession. In 2009 Viridis acquired Cypress Pacific Marketing, a pellet distributor in North American region, and it recently also acquired Westwood Fibre Products Inc., a wood

pellet manufacturer with 50,000 tons of annual capacity. The Company has also acquired the Monte Lake facility, where it plans to construct a 50,000 ton capacity plant.

Wood Pellet Value Chain



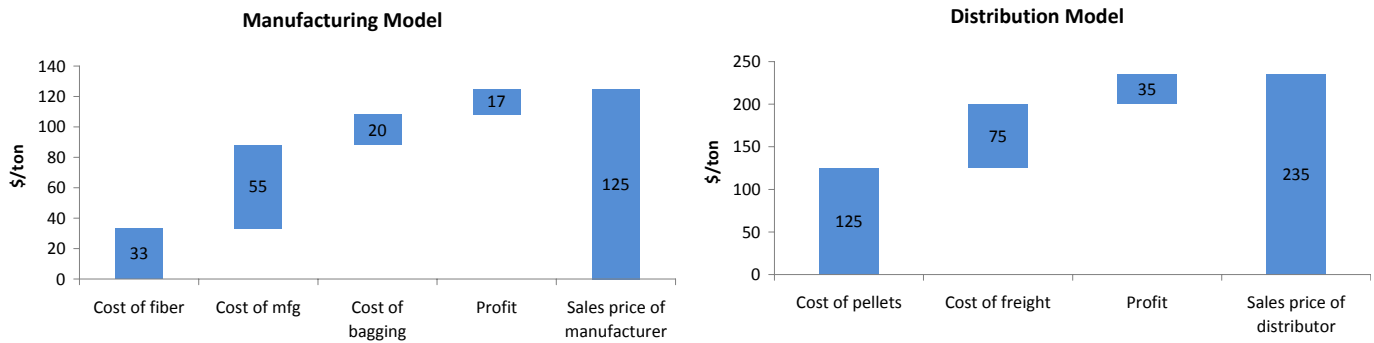
Cypress Pacific is Viridis’ distribution arm and currently distributes wood pellets under four brand names: Okanagan Pellets, Clean Burn, Surefire and Dragon Mountain. Of these brands, Okanagan Pellets, Surefire and Dragon Mountain wood pellets are mainly comprised of a 50/50 pine and spruce mix with small amounts of fir. Clean Burn wood pellets are produced from 100% fir. Okanagan constitutes around 75% of total sales, Clean Burn and Dragon Mountain make up 10% each, and Surefire has the remaining 5% share.

All wood pellets currently distributed by Cypress are premium grade, meaning that they contain less than 1% ash by weight. Each brand of wood pellets generates approximately the same amount of ash per pound after combustion. The Company believes that its products are superior to those of its competitors based on average heat output and percentage of ash produced.

Cypress currently has contracted for a fixed supply of wood pellets per year, supplied from four separate mills in Western Canada and Washington State. The Company intends to maintain relationships with multiple vendors so as to avoid dependence on any one source of wood pellets. Cypress has informal agreements to take as much wood pellet supply as is available at any particular point in time, up to a maximum amount, with respect to three such mills: (a) a mill in Alberta that produces Surefire wood pellets; (b) a mill in British Columbia owned by Pinnacle Pellets Inc., that produces Dragon Mountain wood pellets; and (c) a mill in Washington state that produces Clean Burn wood pellets. Cypress’ fourth supplier mill is Westwood Fibre Products Inc., which produces Okanagan Pellets. Cypress entered into a one-year formal supply agreement on April 1, 2009 with Westwood Fibre Products Inc.

Cypress currently has approximately 250 active customers in the US and Canada. In the U.S., Cypress’ customers cover Washington, Oregon, California, Montana, the Midwest states, and the New England states. In Canada, Cypress’ customers are located in British Columbia and the Toronto-Ottawa region of Ontario. These customers include dealers, hardware stores, pellet stove manufacturers and co-operatives that, in the aggregate, total over 15,000 individual stores in North America. Cypress’ key clients include major hardware chains like Ace, Do-it-Best, and TruValu.

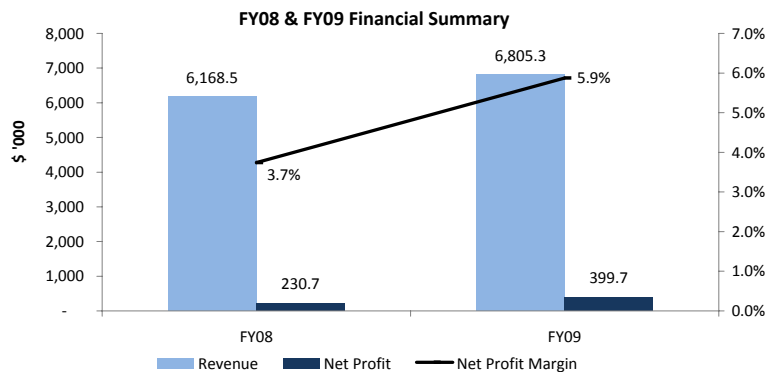
Viridis uses a cost-plus pricing model to price the wood pellets that it sells. The pricing of Cypress-distributed wood pellets is based on supplier costs, shipping costs, storage costs and demand.



Cypress has nine full-time employees and one part-time employee, with all management functions conducted out of Vancouver and the three regional salespersons located in their respective sales regions.

Over its three most recently completed fiscal years, Cypress has grown its wood pellet operations significantly. During these three fiscal years, sales have increased from less than \$1 million to approximately \$6 million.

HISTORICAL FINANCIAL PERFORMANCE



We have considered Cypress' numbers for FY08 & FY09 as we believe they reflect Viridis Energy's current operations. FY08 is the 12-month period ending February 28, 2009, and FY09 is the 9-month period ending November 30, 2009. Revenues grew by 10% year-over-year, even though only the first nine months are considered in FY09, driven by increased volume. Wood pellet sales have risen from 25,000 tons in FY08 to 29,000 tons in the first three quarters of FY09. Gross margin rose from 14.8% to 16.2% due to higher sales volume and relatively lower cost of sales. Consequently, operating margins increased from 4.5% to 6.8%.

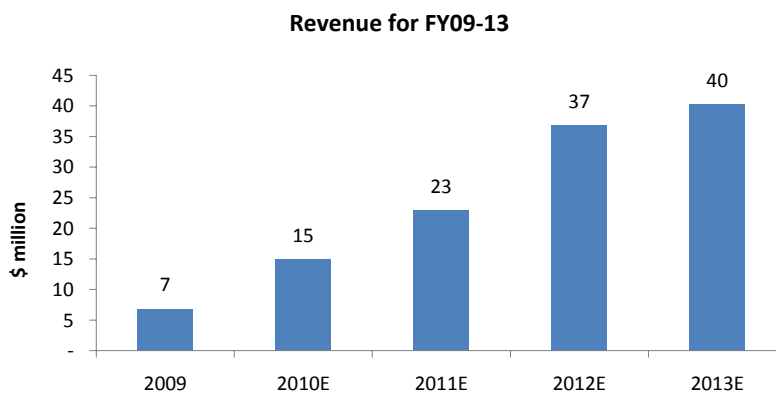
Over the 3-year period between FY06 and FY09, revenues grew by 1000%. This growth reflects the growing market and Viridis' focus on rapid expansion.

OUTLOOK FOR THE PERIOD FY10 – FY13

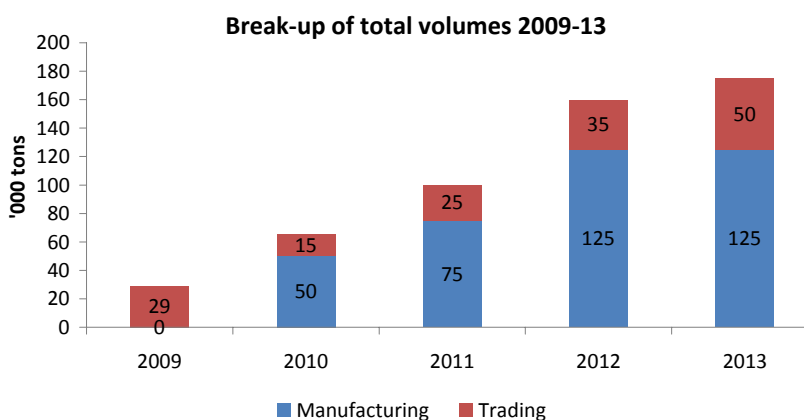
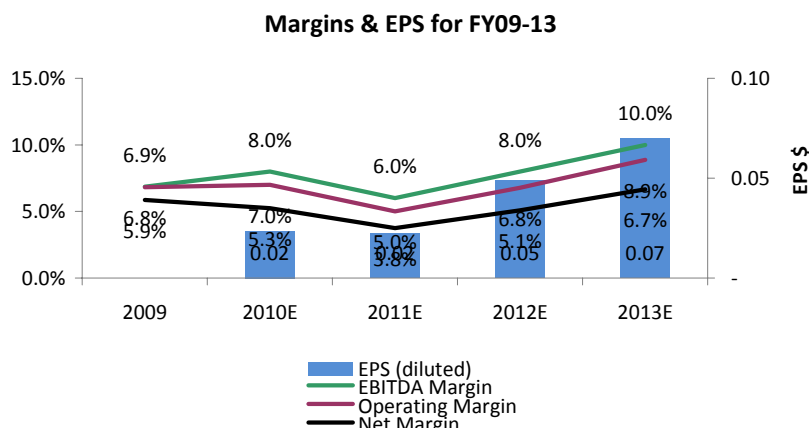
Top-line to grow at CAGR of 56% led by increase in volume: The Company will be focused on expanding its presence in the entire North American market rather than concentrating only on the Northeastern market.



It has plans to grow sales by almost 600% over the next four years, from \$6.8 million in FY09 to \$40 million in FY13, i.e. at a CAGR of 56%.



Margin expansion resulting from improved vertical integration: The acquisition of Westwood and Monte Lake has contributed to the vertical integration of Viridis' operations. Moreover, with a 50% increase in Westwood's capacity and the planned 50,000 tons per annum facility in Monte Lake, we expect gross margins to expand from 18% in FY2010 to 22% by 2013. The margin expansion is expected to be achieved through vertical integration since VRD will source a significantly increased proportion of pellets in-house. Operating margins are expected to expand from 7% to 9%. Operating income is expected to grow from \$0.5 million in 2009 to \$3.6 million in 2013, translating to a CAGR of 67%.



**VALUATION**

Relative Valuation: We have not performed relative valuation for VRD because the Company's peers are not publicly listed. We also believe that public solar and wind players are not directly comparable because of their different business dynamics.

Discounted Cash Flow Analysis

We have used DCF valuations to value VRD's business. We have explicit forecasts for the Company through FY13 and have used semi-explicit forecasts through FY15.

The following table summarizes our assumptions for DCF valuation of VRD's business:

Tax Rate	25%
Risk Free Rate	3.4%
Beta	2.00
Market Premium	4.5%
Cost of Equity	12.4%
Cost of Debt	7.0%
Debt to total capital	0%
WACC	12.40%
Terminal Growth Rate	5.0%

The following table summarizes our pro forma cash flow forecasts for VRD from FY10 to FY15:

	2010 E	2011 E	2012 E	2013E	2014 P	2015 P Terminal	
EBIT	1,046,500	1,150,000	2,494,000	3,575,000	4,468,750	5,139,063	
Growth	125%	10%	117%	43%	25%	15%	
Tax rate	25	25	25	25	25	25	
NOPLAT (EBIT*(1-T%))	784,875	862,500	1,870,500	2,681,250	3,351,563	3,854,297	
Add: D&A	149,500	230,000	450,000	450,000	562,500	646,875	
Less: Capex	(3,750,000)	(3,000,000)	(50,000)	(50,000)	(50,000)	(50,000)	
Add: Working Capital changes	(197,344)	(1,320,200)	(2,300,000)	(609,500)	(761,875)	(876,156)	
Free Cash Flow (FCFF)	(3,012,969)	(3,227,700)	(29,500)	2,471,750	3,102,188	3,575,016	50,726,573
Portion of Year remaining	0.58	1.58	2.59	3.59	4.59	5.59	5.59
PV of FCFF	(2,814,294)	(2,682,264)	(21,803)	1,625,329	1,814,840	1,860,724	26,402,169

Aggregate of PV of FCFF	26,184,701
Less: Net Debt	253,309
Equity	25,931,392
Shares outstanding	25,778,992
Share Price	1.01



We arrive at a fair value of \$1 per share, giving an upside of 92% from the recent market price of \$0.52.

The sensitivity of the target price to the WACC and terminal growth rate is exhibited below.

	WACC									
	1.01	10.4%	10.9%	11.4%	11.9%	12.4%	12.9%	13.4%	13.9%	14.4%
Terminal	3.0%	1.11	1.01	0.92	0.84	0.77	0.71	0.66	0.61	0.56
Growth	3.5%	1.19	1.08	0.98	0.90	0.82	0.75	0.69	0.64	0.59
	4.0%	1.29	1.16	1.05	0.96	0.88	0.80	0.74	0.68	0.62
	4.5%	1.41	1.26	1.14	1.03	0.94	0.85	0.78	0.72	0.66
	5.0%	1.55	1.38	1.23	1.11	1.01	0.91	0.83	0.76	0.70
	5.5%	1.71	1.51	1.35	1.20	1.09	0.98	0.89	0.81	0.74
	6.0%	1.92	1.67	1.48	1.31	1.18	1.06	0.96	0.87	0.80
	6.5%	2.17	1.88	1.64	1.44	1.28	1.15	1.04	0.94	0.85
	7.0%	2.51	2.13	1.83	1.60	1.41	1.26	1.12	1.01	0.92

The sensitivity of the target price to the WACC and 2015 EBIT growth rate is exhibited below.

	WACC									
	1.01	10.4%	10.9%	11.4%	11.9%	12.4%	12.9%	13.4%	13.9%	14.4%
2015 EBIT	11%	1.49	1.32	1.19	1.07	0.97	0.88	0.80	0.73	0.67
Growth	12%	1.50	1.34	1.20	1.08	0.98	0.89	0.81	0.74	0.68
	13%	1.52	1.35	1.21	1.09	0.99	0.90	0.82	0.75	0.69
	14%	1.53	1.36	1.22	1.10	1.00	0.91	0.83	0.76	0.69
	15%	1.55	1.38	1.23	1.11	1.01	0.91	0.83	0.76	0.70
	16%	1.56	1.39	1.24	1.12	1.02	0.92	0.84	0.77	0.71
	17%	1.58	1.40	1.26	1.13	1.03	0.93	0.85	0.78	0.71
	18%	1.59	1.42	1.27	1.14	1.03	0.94	0.86	0.79	0.72
	19%	1.60	1.43	1.28	1.15	1.04	0.95	0.87	0.79	0.73

SWOT ANALYSIS

Strengths	Weaknesses	Opportunities	Threats
Vertically integrated business model - presence in both manufacturing and distribution, helps tap profits in both activities and results in high margins	Relatively smaller player	Production of pellets from "beetle-kill" wood – an abundant source of raw material	Huge demand from utilities may cause scarcity in fiber resources
Strong super-premium brand Okanagan	No long-term contracts to secure raw material for wood pellet manufacturing	Huge North American retail market – plans to grow fivefold over the next four years	Environmental regulation against cutting of "beetle-kill" wood
Strong customer base of 250 accounts representing 15,000 retail accounts		Potential to export to Europe	
Debt-free balance sheet		Possible supply to utilities	



MANAGEMENT TEAM

Robert Gardner – Chairman

- Over 30 years of experience with public companies
- Extensive experience in acquisitions, finance and structuring
- Has served on over 10 boards of publicly traded companies
- Holds two law degrees from Cambridge University

Christopher Robertson – CEO

- Founder of Cypress Pacific Marketing, current CEO has guided company to revenue of \$6 million
- Increased revenue between 100% and 200% for each of the past three years
- Funded growth from cash flow through extremely disciplined expense management
- Successful career in lumber trading, remanufacturing and sales management

Isaac Moss – CFO & Director

- COO of Syntaris Power, a green energy company
- Extensive experience in corporate finance in North America and Europe
- Former executive of mid-market investment banking advisory firm in Switzerland, consulting to client firms in the forest products, chemicals and biotech industries

Michele Rebiere – COO & Executive Vice President

- Currently responsible for corporate development, investor relations and public affairs
- Over 20 years of experience in financial services, corporate strategy and markets
- Part of existing management team for past 5 years

Geordie Munro – Vice President, Sales & Marketing

- Currently manages North American sales, distribution, transportation and logistics operations
- Experience in all aspects of forestry
- Part of existing management team for past 5 years



DETAILS OF PELLETT PLANTS IN CANADA

Pellet Plants in East Canada		
Mill ID	Company Name	2009 Capacity ('000 tons)
1	Lakewood Industries	6
2	Atikokan Renewable	N/A
3	Fabrication EcoFlamme	30
4	Lauzon	40
5	Canadian Biopellet	N/A
6	Lauzon	30
7	Energex Pellet Fuel	120
8	Marwood Ltd	10
9	Shaw Resources	75
10	Enligna	80
11	Shaw Resources	20

Pellet Plants in West Canada		
Mill ID	Company Name	2009 Capacity ('000 tons)
1	Houston Pellet	150
2	Premium Pellet	200
3	Pacific BioEnergy	188
4	Pinnacle Pellet	100
5	Pinnacle Pellet	150
6	Pinnacle Pellet	170
7	Princeton Co-Generation	104
8	Westwood Fiber Products	50
9	Pinnacle Pellet	50
10	Foothills for Products	20
11	LaCrete Sawmills	35
12	Vanderwell	60
13	Dansons Group	80

WOOD PELLET MANUFACTURING

Background: There are several ways in which wood can supplement fossil fuel resources. In addition to burning for heat, it can be processed into liquid fuels (ethanol through fermentation or hydrocarbons by the Fischer-Tropsch process.) or used in power plants to generate electricity.

However, these processes have very low energy conversion efficiency. In wood-to-liquid fuel conversion up to half of the energy content is lost. When wood is burned to produce electricity, similar loss occurs as the waste heat is lost. Furthermore, these processes are capital-intensive and thus constrain economical use. In contrast, burning wood for space heating is a more efficient process. Modern stoves use 85% to 95% of the energy for heat.

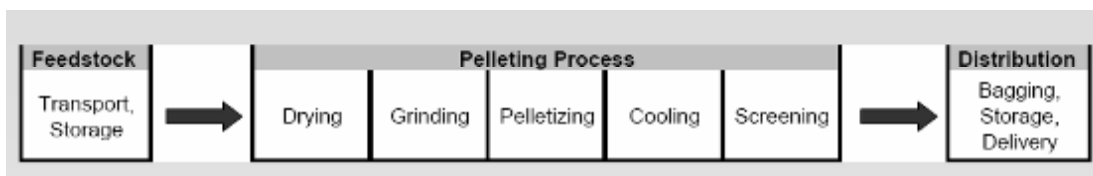
One way in which the market has responded to these efficiency requirements is to use wood in pellet form. Wood in its raw state has low energy density, contains half its weight in water, and transporting and handling is costly because of its low bulk density. Pelletization improves upon these handicaps. By densifying wood, the energy content per unit volume is increased to near that of coal. The moisture content is also lowered from around 50% to less than 10%, enhancing its heating value. With less moisture, pellets burn hotter and more completely, thus reducing harmful particulate emissions. The dewatering and increased bulk density also makes transportation more economical. Lastly, due to its small size, automatic feeding of the stoves is possible as against manual feeding of firewood.

Wood Pellet Production: Wood pellets are usually made from dry, untreated, industrial wood waste such as sawdust, shavings or ground wood chips. This material under high pressure and temperature is compressed into small pellets, cylindrical in shape. The sources used are conifers and pines – softwood and oak – hardwood.

Both the bark and the xylem of the trunk can be used for making wood pellets, although it is most common to use the xylem. Wood pellets are manufactured at wood pellet mills (North American term) or wood pellet plants (European term). The manufacturing process is determined by the raw material but usually includes the following steps: reception of raw material, drying, grinding, pelletizing, cooling, screening and packaging.

Before sawdust, shavings or chips can be pelletized, it is important that the material is dry and homogeneous. Particles which are too big damage wood pellet quality. Therefore the raw material is usually pulverized using a hammer grinder. Wet material is dried to a moisture level of about 8-10%. The material is then pressed through a pellet die whose holes determine the diameter of the wood pellets, and then the pellets are cut into the desired length. The wood’s lignin and resin act as natural binding agents and no additional additives are required.

Typical pelletizing operation



Source: IEA report



Income Statement

All Figures in US\$, except share data
FY Ending December 31,Year ended
Feb. 2007 *Year ended
Feb. 2008 *Year ended
Feb. 2009 *Nine Months
Nov. 2009 *

1Q10

Revenue	1,217,317	2,347,637	6,168,523	6,805,340	153,261
Cost of Revenues	907,207	1,870,804	5,253,070	5,705,324	(164,902)
Gross profit	310,110	476,833	915,453	1,100,016	(11,641)
Operating expenses					
SG&A	330,601	434,212	635,951	632,945	603,837
EBITDA	(20,491)	42,621	279,502	467,071	(615,478)
D & A	1,851	2,600	3,303	2,477	-
Income from operations	(22,342)	40,021	276,199	464,594	(615,478)
Interest expense	-	-	-	-	(5,486)
Foreign exchange (loss)	-	-	-	-	(1,710)
Income before taxes	(22,342)	40,021	276,199	464,594	(622,674)
Tax Provision	-	-	45,495	64,861	-
Net income	(22,342)	40,021	230,704	399,733	(622,674)
Basic number of shares outstanding					14,110,105
EPS (basic)					(0.04)
Diluted number of shares outstanding					14,110,105
EPS (diluted)					(0.04)

*From Cypress



Balance Sheet

All Figures in US\$

FY Ending December 31,

Year Ended
Feb. 2007 *Year Ended
Feb. 2008 *Year Ended
Feb. 2009 *Nine Months
Nov. 2009 *

1Q10

Assets

Current assets

Cash & Cash Equivalents	-	16,264	263,519	57,443	-
Account Receivable	500,111	314,134	828,627	1,845,483	327,920
Intercompany Receivable	-	326,951	864,285	864,285	45,495
Other Receivable	10,868	2,525	16,164	33,983	4,900
Inventory	227,067	42,394	576,510	1,171,579	790,193
Prepaid expenses	1,527	4,000	1,200	-	46,954
Deposits	-	-	17,873	14,550	-
Total current assets	739,573	706,268	2,568,178	3,987,323	1,215,462
Deferred acquisition costs	-	-	-	-	30,000
Property plant and equipment	6,510	16,543	13,972	11,495	8,230
Goodwill	-	-	-	-	4,848,343
Total assets	746,083	722,811	2,582,150	3,998,818	6,102,035

Liabilities and Stockholders' Equity

Current liabilities

Bank Advances	385,783	461,810	1,021,832	2,297,783	1,959,656
Accounts Payable	329,640	258,976	1,303,570	796,589	1,247,200
Advances	-	-	-	-	26,669
Customer Deposits	-	-	20,246	-	5,404
Income taxes payable	-	-	45,495	64,861	-
Advances from shareholders	162,875	53,420	42,798	321,343	205,093
Current portion of long term debt	19,200	31,100	39,600	39,600	15,300
Other loan	-	-	-	-	14,400
Total current liabilities	897,498	805,306	2,473,541	3,520,176	3,473,722

Long term debt	54,400	83,300	43,700	14,000	10,700
Total liabilities	951,898	888,606	2,517,241	3,534,176	3,484,422

Shareholders' Equity

Share Capital	132	132	132	132	11,615,382
Contributed surplus - stock options	-	-	-	-	496,668
Contributed surplus	-	-	-	-	182,535
Accumulated other comprehensive loss	-	-	-	-	(433,022)
Retained earnings (deficit)	(205,947)	(165,927)	64,777	464,510	(9,243,950)
Total Equity	(205,815)	(165,795)	64,909	464,642	2,617,613
Total liabilities & stockholders' equity	746,083	722,811	2,582,150	3,998,818	6,102,035

* From Cypress



Cash Flow Statement All Figures in US\$ FY Ending December 31,	Year Ended Feb. 2007 *	Year Ended Feb. 2008 *	Year Ended Feb. 2009 *	Nine Months Nov. 2009 *	1Q10 *
Cash Flows from Operating Activities					
Net earnings for the period	(22,342)	40,021	230,704	399,733	(622,674)
Item not involving cash					
Amortization	1,851	2,600	3,303	2,477	-
Stock based compensation	-	-	-	-	316,852
Changes in non-cash operating working capital items					
Accounts receivable	(232,607)	185,977	(514,493)	(1,016,856)	(18,856)
Other receivable	2,831	3,034	(13,639)	(17,819)	25,358
Inventory	14,892	184,673	(534,116)	(595,069)	(106,669)
Intercompany receivable	-	(326,951)	(537,334)	-	-
Prepaid expenses	82	(2,473)	2,800	1,200	(12,995)
Deposits	-	-	(17,873)	3,323	-
Accounts payable	204,625	(70,660)	1,044,593	(506,981)	217,794
Due to related parties	-	-	-	-	5,002
Customer deposits	-	-	20,246	(20,246)	-
Income taxes payable	-	5,309	45,495	19,366	-
Cash Flows Provided by (Used in) Operating Activities	(30,668)	21,530	(270,314)	(1,730,872)	(196,188)
Cash Flows from Investing Activities					
Purchase of property, plant and equipment	(1,591)	(12,637)	(731)	-	-
Cash transferred upon acquisition of business operations	-	-	-	-	(1,967,425)
Deferred acquisition cost	-	-	-	-	(30,000)
Cash Flows Used in Investing Activities	(1,591)	(12,637)	(731)	-	(1,997,425)
Cash Flows from Financing Activities					
Proceeds from subscriptions received	-	-	-	-	50,000
Advances from (to) shareholders	25,500	(109,455)	(10,622)	278,545	(25,000)
(Repayments) proceeds from long-term debt	(19,200)	40,800	(31,100)	(29,700)	(1,600)
Share issue costs	-	-	-	-	(2,790)
Cash Flows Provided by (Used in) Financing Activities	6,300	(68,655)	(41,722)	248,845	20,610
Decrease in Cash and Cash Equivalents	(25,959)	(59,762)	(312,767)	(1,482,027)	(2,173,003)

* From Cypress



Analyst Certification

The analysts contributing to this report do not hold any shares of VRD. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. RedChip Companies Inc. certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst authoring this report.

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RedChip Visibility Coverage Universe		
Rating	Number of Covered Companies	Percentage of Universe
Strong Buy	5	20.0%
Buy	13	52.0%
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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