Fundamental Research Corp.
Investment Analysis for Intelligent Investors

June 2, 2020

UEX Corporation (TSX: UEX)

Updated Cobalt-Nickel Resource / Increasing Focus on Uranium Assets

BUY
Current Price: C$0.15
Fair Value: C$0.45
Risk: 5

Sector / Industry: Junior Mining

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Highlights

- UEX Corporation ("company", "UEX") completed an updated resource estimate on its West Bear Co-Ni deposit located in the Eastern Athabasca Basin in northern Saskatchewan. **The updated study upgraded the previous inferred resource to the indicated category, and increased tonnage by 214%.** This led to a 61% increase in contained cobalt ("Co") to 5.12 million pounds ("Mlbs"), and a 194% increase in contained nickel ("Ni") to 5.66 Mlbs.

- The deposit holds a high-grade cobalt resource, but requires expansion to be advanced to an economic study. UEX is conducting regional exploration to identify satellite deposits.

- The **recent spike in uranium prices** (42% over the past six weeks to US$34 / lb) prompted management to complete a $2 million equity raise.

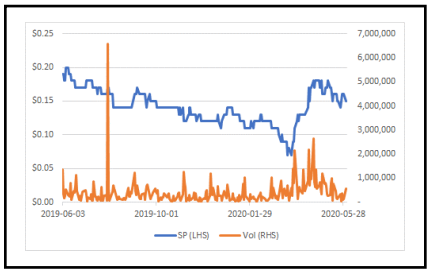
- We have a positive outlook on uranium prices considering that we expect **that global uranium production in 2020 will be down 16% YoY**. This is due to the supply disruptions announced by major producers worldwide due to COVID-19. Electricity demand (which accounts for 90% of uranium demand, is expected to be down only 3% YoY.

- Our discussions with management indicated that they expect to announce exploration / development plans for their uranium properties shortly. Note that UEX's portfolio has 18 uranium projects, including four projects with a combined indicated resource of 69.8 Mlbs, and inferred resource of 29.7 Mlbs. **UEX maintains its position as one of the leading uranium juniors in the country.**

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

Yi (Delvin) Xie, CFA

Price Performance (1-year)



	YTD	12M
Ret.	7.1%	-21.1%
TSX	-10.9%	-4.9%

Company Data

52 Week Range	C$0.07 - C$0.28
Shares O/S	406,685,811
Market Cap.	C$61.02 million
Yield (forward)	N/A
P/E (forward)	N/A
P/B	N/A

Key Financial Data (FYE - Dec 31) (C$)	2018	2019	Q1-2020
Cash	$10,258,858	$3,597,510	$1,931,551
Working Capital	$9,691,545	$2,928,404	$1,722,404
Mineral Assets	$10,864,172	$10,872,909	$10,871,004
Total Assets	$21,931,143	$15,295,954	$13,473,277
Net Income (Loss)	-$6,272,461	-$9,123,734	-$1,320,447
EPS	-$0.02	-$0.02	-$0.00

***See last page for important disclosures, rating and risk definitions. All figures in C$ unless otherwise specified.**

Updated Resource Estimate on West Bear Co-Ni Deposit

Successful 2019 drilling led to an updated resource estimate

In April 2020, the company announced an updated resource estimate on its West Bear Co-Ni deposit, located on the 100% owned West Bear property. The West Bear property (7,983 ha across 24 contiguous areas) is located in the Eastern Athabasca province of northern Saskatchewan, approximately 740 km north of Saskatoon. Access to the property is via Highway 905, which transects the property within 10 km east of the West Bear Co-Ni deposit. Hydroelectric powerlines cross the property, approximately 10 km east of the deposit area. There is access to fresh water close to the project.

Project Location

Source: Company

UEX had drilled the property from 2002 to 2007, targeting uranium, and then commenced drilling for cobalt-nickel in 2018. The 2018 drill program (41 holes / 4,457 m) focused on evaluating the potential for cobalt-nickel, both under the known uranium deposit, and along strike to the east of the deposit. The drill program resulted in a maiden resource in July 2018. **In 2019, the company drilled 126 holes (11,413 m) which expanded the known strike length from 225 to 600 metres (dip length of over 100 m), resulting in an updated resource estimate.**

Using a cut-off grade of 0.023% cobalt equivalent ("CoEq"), the updated resource showed an indicted resource of 1.22 Mt at 0.19% Co and 0.21% Ni for 5.12 Mlbs Co and 5.66 Mlbs Ni. This compares to the maiden 2018 inferred resource of 3.17 Mlbs cobalt (0.37%), and 1.93 Mlbs of nickel (0.22%). Both resource estimates were based on the same cut-off grades and commodity prices. **The updated study**

not only upgraded the inferred resource to indicated, but also increased tonnage by 214%. This led to a 61% increase in contained Co and 194% increase in contained Ni. However, the average Co grade of the updated larger tonnage was 0.19% versus 0.37% for the maiden resource, while the Ni grade dropped slightly from 0.22% to 0.21%. As shown in the sensitivity table below, a high cut-off grade of 0.1% CoEq, showed a tonnage of 0.51 Mt (30% higher than the maiden resource) and a higher Co grade of 0.40% and Ni grade of 0.40%. **This indicates that the lower Co grade of 0.19% in the base-case scenario was merely because the updated study used a significantly larger tonnage.**

2020 Updated Resource Estimate

Category		Grade		Contained Metal	
	Quantity	Cobalt	Nickel	Cobalt	Nickel
	Tonnes	(%)	(%)	('000 lb)	('000 lb)
Indicated	1,223,000	0.19	0.21	5,122	5,662

Cut-Off Grade	Indicated Blocks				
	Volume / Quantity		Grade		
CoEq (%)	Volume (m^3)	Tonnage (tonnes)	Co (%)	Ni (%)	CoEq (%)
0.013	444,335	1,226,365	0.19	0.21	0.23
0.020	444,847	1,225,017	0.19	0.21	0.23
0.023	443,287	1,223,471	0.19	0.21	0.23
0.025	442,892	1,222,382	0.19	0.21	0.23
0.030	436,979	1,206,062	0.19	0.22	0.24
0.035	420,360	1,160,194	0.20	0.22	0.24
0.040	395,913	1,092,721	0.21	0.23	0.26
0.050	343,886	949,125	0.24	0.26	0.29
0.060	292,897	808,395	0.27	0.29	0.33
0.070	256,010	706,588	0.30	0.32	0.37
0.080	223,896	617,953	0.34	0.35	0.41
0.090	201,324	555,655	0.37	0.37	0.45
0.100	183,563	506,635	0.40	0.40	0.48

**Co price of US$35 per lb and nickel price of US$7 per lb / 90% recovery for both metals.*
Source: Company

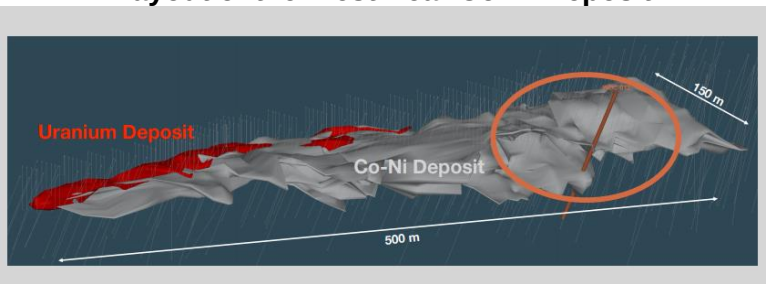
High-grade cobalt deposit

We consider the West Bear Co-Ni deposit to be a high-grade deposit. To put things in perspective, we estimate that one of the largest primary cobalt reserves in North America is that of Fortune Mineral's (TSX: FT) NICO project in the NWT, which has 82 Mlbs of cobalt reserves at 0.1% cobalt. Note that no metallurgical testing has been conducted to date on UEX's West Bear deposit.

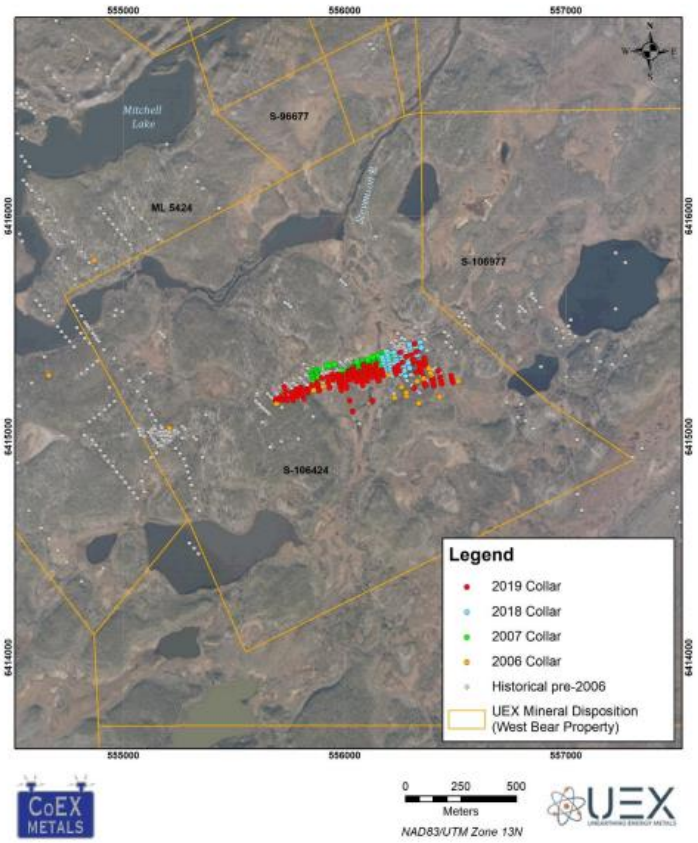
Drilling targeted mineralization between 18 m and 130 m from surface

The following image shows the deposit's layout. The updated resource used a total of 379 diamond drill holes (23,110 m) drilled by UEX in 2003, 2005, 2007, 2018 and 2019. **Drilling targeted mineralization between 18 and 130 m from surface, implying the potential for shallow / open-pit operations.**

Layout of the West Bear Co-Ni Deposit



Drilling on the West Bear Co-Ni Project

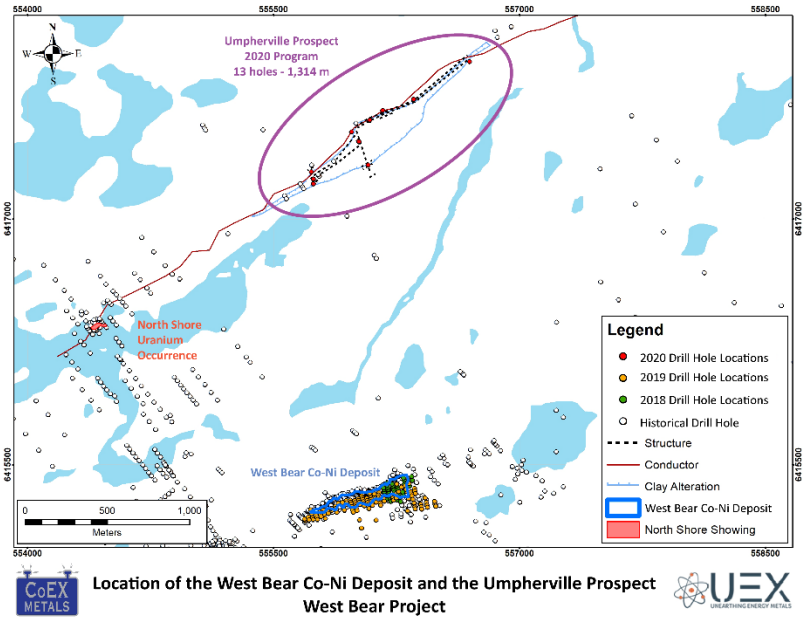


Source: Technical Report

Exploring to identify satellite deposits

In order to identify satellite Co-Ni deposits on the project, UEX recently drilled 13 holes / 1,314 m at the Umpherville area, located 2 km north of the identified resource. The Umpherville area has shown similar geological, geochemical, and hydrothermal alteration to that observed in the resource area.

Umpherville Area



Source: Company

Although detailed results were not disclosed, the company did state that the drill program expanded the size of the known hydrothermal alteration system from 600 m to 1,500 m.

Management's immediate plans on the project include:

- a detailed review of the historical drilling southwest along strike from the Umpherville alteration zone; this area appears to have been missed by previous operators; and
- plan an exploration program on untested high priority cobalt and uranium targets.

Uranium Portfolio

One of the largest uranium portfolios held by a junior

The company's portfolio has 18 uranium projects, including four key projects (named Horseshoe-Raven / Hidden Bay, Christie Lake, Shea Creek, and West Bear) with a combined indicated resource of 69.8 Mlbs, and inferred resource of 29.7 Mlbs. **This makes UEX the holder of one of the largest uranium resources, held by a junior, in the Athabasca basin.**

Location of UEX's Projects

Consolidated (U_3O_8) Resource Estimate (UEX's Share)			
	Kt	Grade (%)	Contained Metal (Mlbs)
Christie Lake (64.34%)			
Inferred	378	1.57%	13.09
Horseshoe-Raven (100%)			
Indicated	10,294	0.15%	35.04
Inferred	1,109	0.11%	2.72
Shea Creek (49.1%)			
Indicated	1,015	1.48%	33.22
Inferred	625	1.01%	13.84
West Bear Uranium (100%)			
Indicated	79	0.91%	1.58
Total Indicated	11,388	0.28%	69.84
Total Inferred	2,112	0.64%	29.65

Source: Company

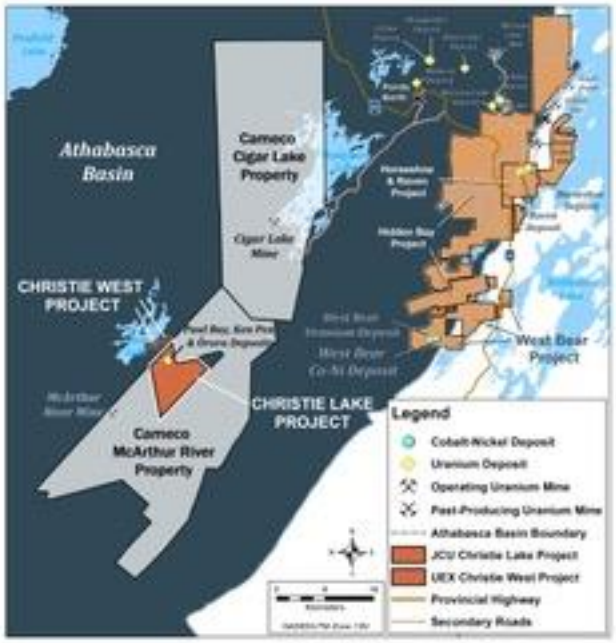
The most advanced stage project is Horseshoe-Raven. In 2011, UEX completed a PEA on the two deposits, based on toll milling at one of the two nearby uranium mills. The PEA was based on underground mining of Horseshoe, followed by open-pit operations at Raven for a maximum total mill feed of 1,000 tpd. A seven-year mine life showed total production of 16.6 Mlbs U_3O_8 at 0.3%. The initial CAPEX was estimated at $116 million. **The PEA showed a before-tax Net Present Value ("NPV") at 5% of $163 million, based on a uranium price of US$60/lb.**

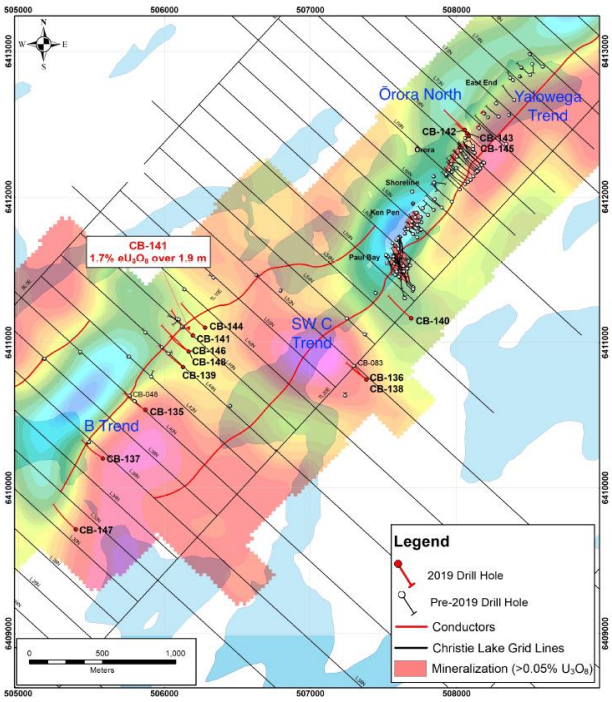
Upcoming Exploration

UEX commenced an exploration program at Christie Lake in mid-February, the first phase of which was completed in late March. **The project is located 9 km**

northeast and along strike of Cameco's McArthur River mine and 30 km southwest of the Cigar Lake mine.

Christie Lake Project





Source: Company

Management's focus is on the Ōrora North area (see above image), where a DC resistivity survey conducted in 2019 returned a strong and wide anomaly. Three holes were drilled in fall 2019; geochemical studies returned 3 - 12 ppm (up to 44.3 ppm) uranium over core lengths of 98 - 180 m. These are high values as generally 1 - 2 ppm uranium in sandstone-hosted structures is considered attractive. The first phase of the 2020 exploration program consisted of an electromagnetic survey to identify drill targets. The second phase is expected to commence in August (should restrictions ease due to COVID-19), and will consist of drilling the newly defined conductor target mentioned above. UEX currently has a 64.34% interest in the project. Japan (Canada) Exploration Company Limited ("JCU") owns the remaining 35.66%. JCU is not participating in the current exploration work, implying their interest in the project will dilute accordingly.

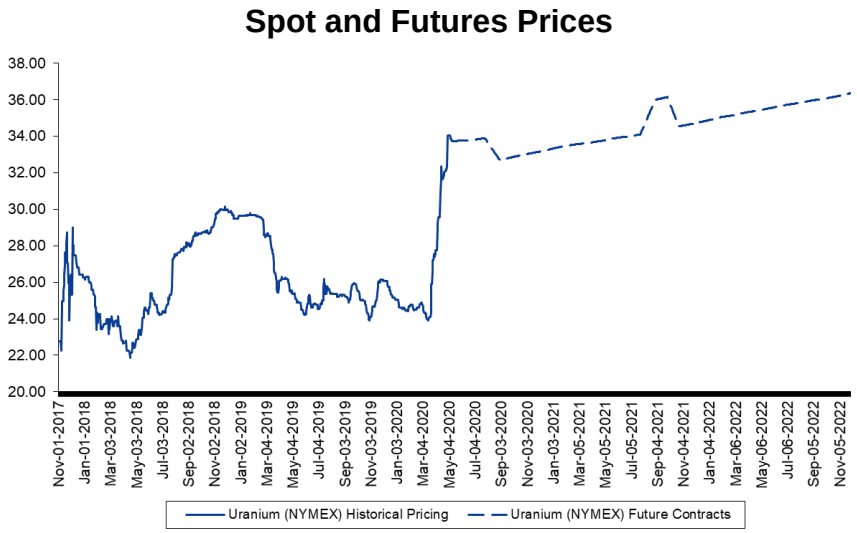
Management's near-term plans for its other projects include:

- **Shea Creek –** management expects to work with partner Orano (formerly AREVA) to resume exploration in 2021 to potentially grow the existing resource base.
- **Hidden Bay –** continue to test for basement-hosted uranium deposits at the 13 existing identified targets tested for unconformity deposits. All of Canada's uranium production currently is from unconformity-related deposits. However, more recently, many companies have begun exploring deeper below the unconformity, or outside of the basin sandstone cover, in the basement rock, and a number of world class discoveries have been found. Examples of basement hosted deposits are Cameco's Eagle Point mine, NexGen Energy's (TSX: NXE) Arrow deposit, Fission Uranium's (TSX: FCU) Patterson Lake South deposit and Denison Mines' (TSX: DML) Gryphon deposit at its Wheeler River project.

Outlook on Uranium

Uranium prices ran up 42% over the past six weeks, from US$24 / lb in March 2020, to the current price of US$34 / lb.

Uranium prices up 42% in 6 weeks



Source: S&P Capital IQ

The significant run in price was primarily due to the following supply disruptions announced by major uranium producers due to COVID-19.

- Cameco (the second largest producer in the world) decided to suspend operations at its Cigar Lake uranium mine on March 23, 2020. Cigar Lake accounts for 100% of Canada's production.

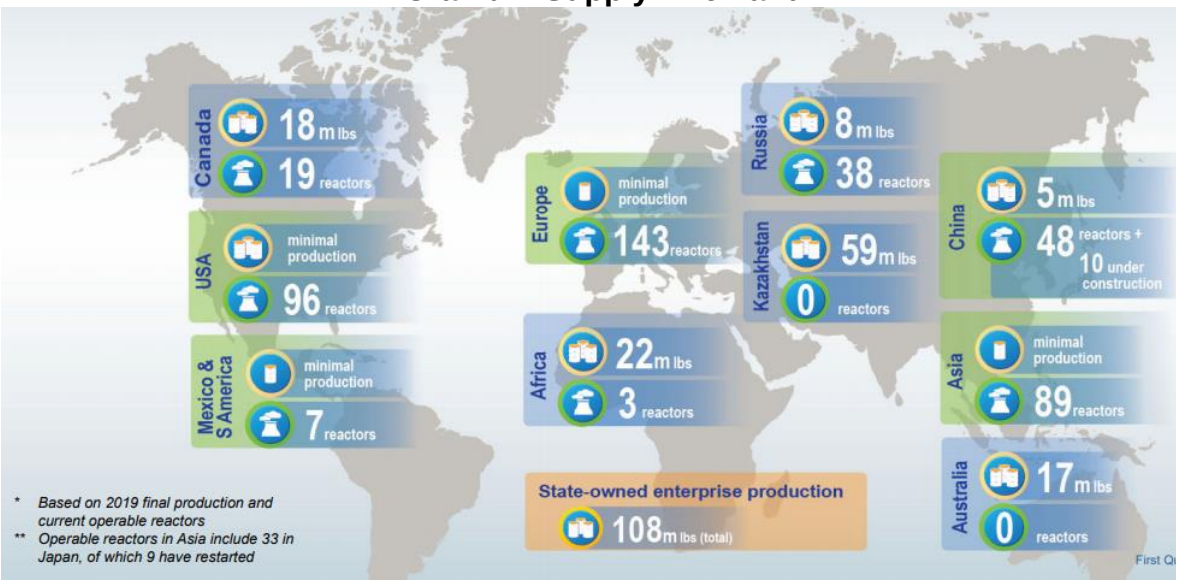
- Two major producing countries in Africa, South Africa and Namibia, also paused their production in March.

- Kazatomprom (the largest producer in the world) lowered its 2020 guidance from 50 Mlbs to 42 Mlbs.

- Production at BHP's (ASX: BHP) Olympic Dam project (which accounted for 6% of global production in 2019) is expected to decline 11% YoY in 2020.

The following image shows global production by region. Canada and Africa (where production is completely suspended) had accounted for 33% of global uranium production in 2019.

Uranium Supply - Demand

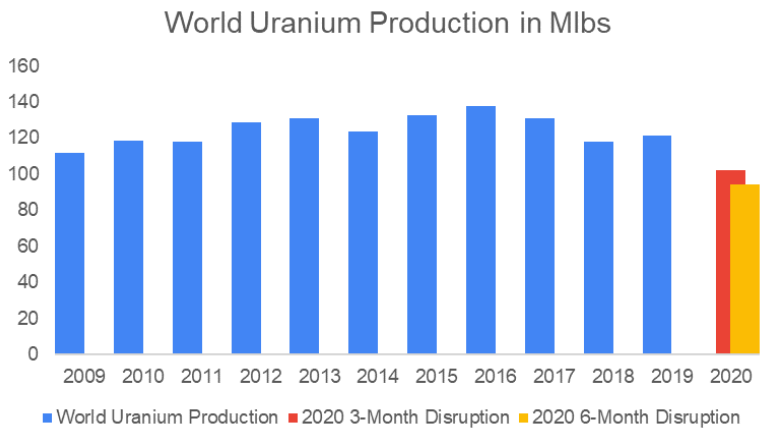


Source: Cameco

We estimate that 2020 production will be down 16% YoY, based on the assumption that operations across the world will be disrupted until the end of June 2020. Production will drop 22% YoY if the impact of COVID-19 lasts until the end of September 2020.

We are expecting a 16% YoY decline in global production in 2020

Primary Production of Uranium



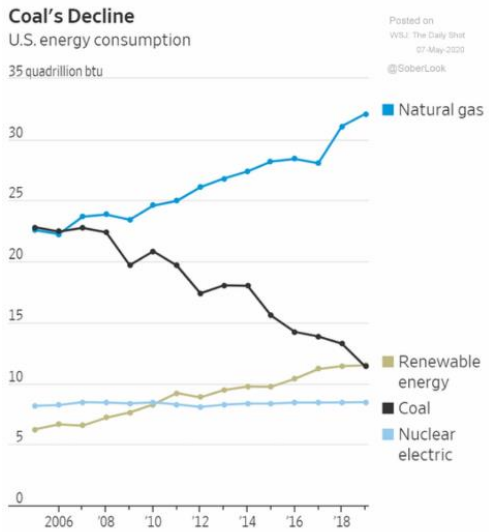
Country	2019 Productions (Mlbs)	2020E (Impact of pandemic until June 30)	% change from 2019	2020E (Impact of pandemic until Sept 30)	% change from 2019	2021E (Mlbs)	% change from 2019	% Change from 2020
Canada	18.0	13.5	-25%	9.0	-50%	18.2	1%	35%
Africa	23.0	19.5	-15%	17.3	-25%	20.8	-9%	7%
Kazakhstan	50.3	42.4	-16%	42.4	-16%	51.4	2%	21%
Australia	14.6	13.1	-10%	13.1	-10%	14.0	-4%	7%
Others	15.4	13.9	-10%	12.3	-20%	15.4	0%	11%
Total	**121.3**	**102.5**	**-16%**	**94.1**	**-22%**	**119.8**	**-1%**	**17%**

Source: FRC, Cameco, Kazatomprom, BHP, WNA

On the demand side, power generation accounts for 90% of the global demand for uranium. At the end of 2019, 450 nuclear power reactors were in operation worldwide, totaling 398.9 GW(e) in net installed capacity, up 0.6% YoY. Uranium mine production satisfied 83% of the world demand (143 Mlbs) in 2019; the remaining were met by stockpiles.

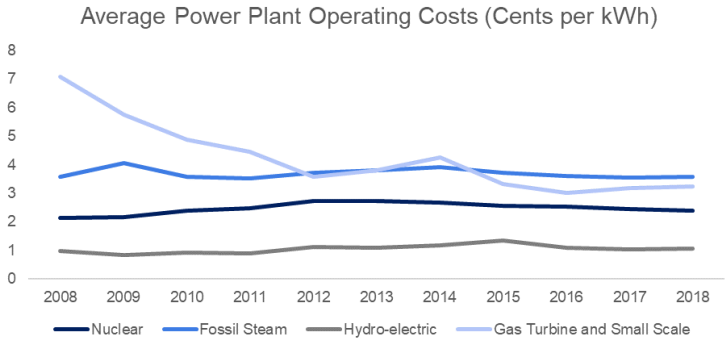
As a result of the pandemic, the demand for uranium will be impacted by lower demand for electricity. The U.S. Energy Information Administration ("EIA") estimates power generation in the U.S. will decline 3% YoY in 2020. Most of the reduction is expected to come from coal-fueled power plans. Nuclear power generation is expected to drop 1.6%. Nuclear power in the U.S. is currently facing competition from natural gas, which is currently at historic low prices, and from renewable sources.

EIA estimates a 3% decline in electricity consumption in 2020



Source: EIA

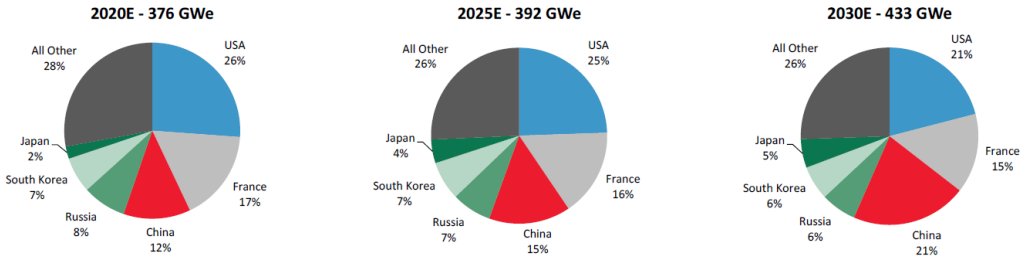
Nevertheless, nuclear power continues to grow in the developing world as a base load, carbon-free source and due to its low operating cost (see chart below).



Source: EIA, FRC

As shown in the chart below, the U.S.'s share of global nuclear power is expected to decline from the current 26% to 21% by 2030.

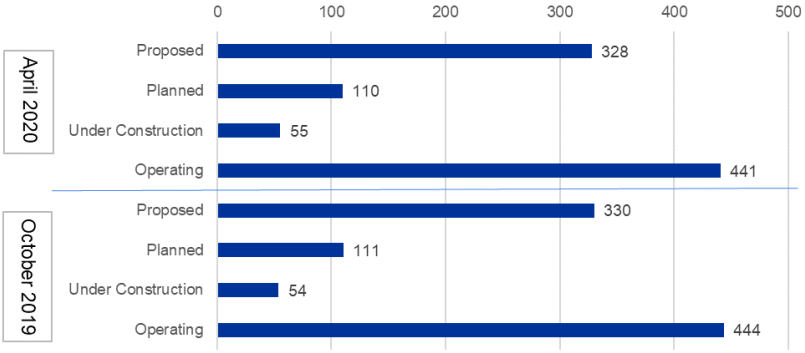
Nuclear Power Generation Capacity by Country



Source: UxC, Scotiabank

As per the International Energy Agency's policies, nuclear power generation capacity growth is expected to be 25% from 2015 to 2040. The planned and under-construction reactors will bring the total number of existing reactors to 606, a 36.5% increase. More than half of the reactors under construction are expected to come online in two years.

Number of Reactors in April 2020 versus in October 2019



Source: WNA, FRC

Based on the above, we are expecting a 37 Mlbs primary supply deficit in 2020, up from 22 Mlbs in 2019. Taking secondary supplies in to consideration, the total supply will likely turn from a 9 Mlbs surplus in 2019, to a 6 Mlbs deficit in 2020.

2020 to have a primary supply deficit of 37 Mlbs

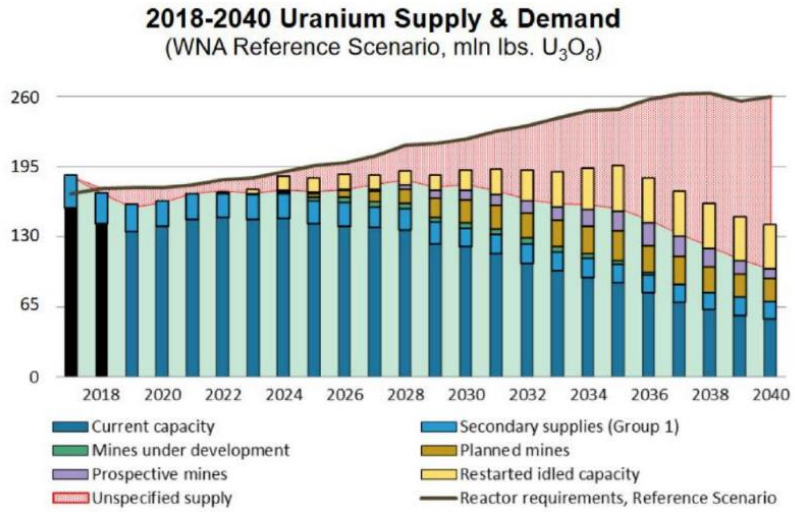
	2019	2020*	% Change from 2019	2021	% Change from 2019	% Change from 2020
Uranium Demand	143	140	-2.44%	153	6.92%	9.58%
Primary Production	121	102	-15.53%	120	-1.19%	16.97%
Secondary Production	31	31		31		
Primary Production as % of Demand	85%	73%		78%		
Primary Supply Surplus (Deficit)	-22	-37		-33		
Primary + Secondary Supply Surplus (Deficit)	9	-6		-2		
All Supply as % of Demand	106%	96%		98%		

* Assuming markets normalize post June 30, 2020

* Secondary sources, such civil stockpiles, military warheads, recycled uranium, etc., is expected to last another 18 years.

Source: FRC

Over the long-term, the uranium market is expected to be in a 100+ Mlbs deficit by 2040.



Source: Cameco, UxC, GoviEx, WNA

We maintain our positive long-term outlook on uranium prices based on the following key factors:

Favorable short-term and long-term outlook

- Nuclear energy is a dependable and clean power source
- Uranium has no direct substitute for use in nuclear power plants
- A major concern regarding the supply of uranium is that it typically takes over 10 years from discovery to production for a uranium mine.
- Significant decline in exploration / development spending.
- Although capital costs of nuclear power plants are high, nuclear plants tend to have lower operating costs per unit of electricity produced (compared to other plants).
- Prices need to be much higher in order to incentivize idled and new projects to come online. The following table shows a list of some of the advanced stage projects – the average uranium price used for their economic studies was US$57 /lb. The break-even price, we estimate, is US$33 / lb.

Uranium Price Assumptions from Technical Reports

Company	Project	Location	Base Case Uranium Price (US$/lb)	Price for NPV Break-Even (US$/lb)
Fission Uranum Corp.	Patterson Lake South	Athabasca Basin, CAN	$50	$35
Denison Mines Corp.	Wheeler River	Athabasca Basin, CAN	$30 - $50	n/a
NextGen Energy Ltd.	Arrow	Athabasca Basin, CAN	$50	$15
Laramide Resources	Westmoreland	U.S.	$65	$35
GoviEx	Mutanga	Africa	$58	$46
	Madaouela	Africa	$70	$49
Ur-Energy	Lost Creek	U.S.	$66	$25
	Shirley Basin	U.S.	$63	$28
Average			**$57**	**$33**

Source: FRC, Various Companies' Technical Reports

Financials

At the end of Q1-2020, UEX had cash and working capital of $1.93 million and $1.72 million, respectively. We estimate the company had a burn rate (G&A) of $100k per month in Q1. The following table summarizes the company's liquidity position.

Healthy cash position

Financial Position

(in C$)	2018	2019	Q1-2020
Cash	$10,258,858	$3,597,510	$1,931,551
Working Capital	$9,691,545	$2,928,404	$1,722,404
Current Ratio	13.71	4.29	5.56
LT Debt / Assets	-	-	-
Monthly Burn Rate (incl. G&A)	-$103,858	-$76,985	-$99,775
Project Related	-$4,359,568	-$7,682,875	$947,683
Cash from Financing Activities	$11,489,434	$1,452,742	-$29,608

Source: FRC / Company

In May 2020, UEX completed a **$2 million financing** at $0.16 per unit. Each unit consisted of a common share and half warrant (exercise price of $0.21 for three years). Cameco currently owns 50.02 million shares, or 12% of the shares. **In total, management, board, and key investors, own 26% of the total outstanding shares.**

Share Ownership

Significant Investors	Shares	% of Total
Management / Board	1,854,800	0.46%
Cameco Corporation	50,020,427	12.30%
Stephen Sorensen (Founder)	34,018,235	8.36%
Blackrock Investment Management	8,750,000	2.15%
Segra Capital	10,623,000	2.61%
Total	**105,266,462**	**25.88%**

Source: Company

Stock Options and Warrants - We estimate the company currently has 27.79 million options (weighted average exercise price of $0.30 per share) and 6.25 million warrants (exercise price of $0.21 per share) outstanding. None of the options are currently in-the-money.

Valuation

The following table shows the Enterprise Value ("EV") to resource ratios of uranium juniors. As shown below, the average EV of Canadian juniors is $2.11 / lb (previously $1.95 / lb). The global average (introduced in this report) is $1.79 / lb.

Junior Uranium Companies

	Location	M&I (Mlbs)	Grade	Inferred (Mlbs)	Grade	Net Resource (Mlbs)	EV ($M)	EV / Resource ($ / lb)
Ur-Energy	U.S.	22	0.13%	6	0.04%	25	$137	$5.42
NexGen Energy Ltd.	Athabasca Basin, Canada	257	4.03%	92	0.86%	302	$839	$2.77
Denison Mines Corp.	Athabasca Basin, Canada	144	2.77%	13	0.92%	151	$337	$2.24
Peninsula Energy	U.S.	16	0.49%	38	0.48%	35	$55	$1.58
Fission Uranium Corp	Athabasca Basin, Canada	102	2.10%	33	1.22%	119	$156	$1.31
Azarga Uranium	U.S.	41	0.10%	6	0.07%	44	$38	$0.87
Laramide Resources	U.S.	36	0.09%	67	0.08%	69	$48	$0.69
GoviEx	Africa	111	0.14%	28	0.13%	125	$79	$0.63
Global Atomic	Africa	102	0.18%	88	0.18%	145	$82	$0.56
Average (Global)								**$1.79**
Average (Canada)								**$2.11**

- Net Resource = 100% Measured and Indicated and 50% Inferred Resources

Source: Various Companies / S&P Capital IQ / FRC

We estimate that the average EV to cobalt equivalent resource of juniors is approximately $0.19 / lb (previously $0.22 per lb). The average cobalt grade is 0.12%.

Junior Cobalt Companies

Company	Location	Co equiv. resource	Co Grade	EV ($M)	EV / lb
First Cobalt Corp.	US	32,187,490	0.24%	$59	$1.83
Aeon Metals Ltd.	Australia	177,248,717	0.09%	$72	$0.41
Australian Mines Ltd.	Australia	126,009,615	0.09%	$29	$0.23
Fortune Minerals Ltd.	Canada	173,841,064	0.11%	$29	$0.17
Clean TeQ Holdings Limited	Australia	720,911,590	0.10%	$89	$0.12
Cobalt Blue Holdings Limited	Australia	176,155,961	0.09%	$18	$0.10
Global Energy Metals	Australia / Canada	12,530,718	0.34%	$2	$0.13
Average (excld outliers)			**0.12%**		**$0.19**

- Net Resource = 100% Measured and Indicated and 50% Inferred Resources

Source: Various Companies / S&P Capital IQ / FRC

Based on a sum-of-parts approach, our fair value estimate on UEX increased from $170 million to $184 million due to the increase in the EV/lb of comparables. However, the value per share estimate remained unchanged at $0.45 per share due to share dilution (381 million to 407 million) since our previous report. **We reiterate our BUY rating on UEX.**

Valuation Summary	
Uranium Resource (Mlbs) - 100% M&I+50% Inf.	84.66
Valuation Multiple ($/lb)	*$2.11*
Fair Value ($M)	**$178.45**
Cobalt Equiv. Resource (Mlbs) - 100% Inf.	6.93
Valuation Multiple ($/lb)	*$0.31*
Fair Value ($M)	**$2.12**
Working Capital ($M)	$3.42
Fair Value of UEX ($M)	**$183.99**
Shares (treasury stock method) - millions	406.69
Fair Value ($ per share)	**$0.45**

Source: FRC

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The long-term impact of COVID-19 is highly uncertain.
- Exploration and development risks associated with the company's projects.
- Uranium prices have to be well above current prices for UEX's uranium projects to generate an attractive return on investment.
- Access to capital and potential share dilution.
- Cobalt exploration in the Athabasca basin is in early stages; there is no guarantee that the company will be able to delineate an economic cobalt resource.

As with most junior exploration companies, we rate UEX shares a risk of 5 (Highly Speculative).

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

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

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

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

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

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

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