

Lightlake Therapeutics, Inc.
Biotechnology; drug development
LLTP: OTC/BB

October 31, 2011

PROFILE

Lightlake Therapeutics recently began a Phase II clinical trial to establish the effectiveness of a *intranasal naloxone* for the treatment of binge eating disorder. The opioid antagonist naloxone has been widely used in the treatment of patients addicted to opiate drugs and alcohol. The Company's scientific team believes naloxone is uniquely appropriate to treat eating disorders, which have been linked to drug and alcohol dependency. Lightlake is building on patented treatments developed by the Company's founder Dr. David Sinclair. World renowned for The Sinclair Method, an effective treatment for alcoholism, Dr. Sinclair is among the leading authorities in the use of opioid antagonists for addiction treatment.

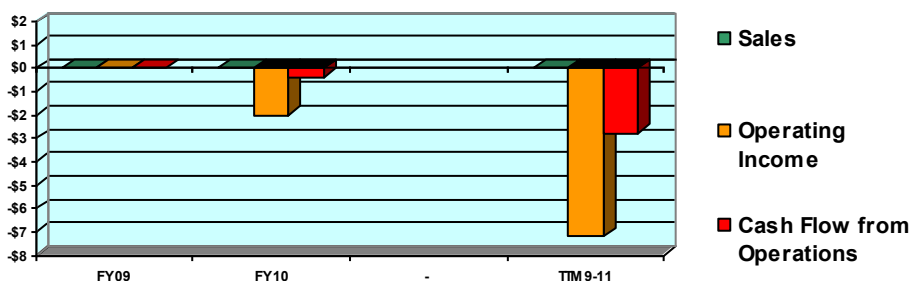
Lightlake's current Phase II trial is a six-month, double blind study and is expected to be completed in the first half of calendar year 2012. Lightlake plans to submit applications to European and U.S. regulatory authorities for approval of the treatment. The Company has an agreement with the Imperial College of London to complete a subsequent Phase III study. A second Phase II trial is planned in partnership with King's College London relating to use of *intranasal naloxone* for patients with bulimia nervosa.

A successful Phase II trials could catapult Lightlake to the forefront of the market for therapies for eating disorders. There are a significant and growing number of people suffering from bingeing and bulimia. Current therapies have had limited success, leaving a significant unmet demand.

If proven effective the *intranasal naloxone* treatment would be Lightlake's first drug candidate for regulatory approval and commercialization. Management believes a focus on eating disorders rather than obesity increases Lightlake's prospects with regulators. The Company plans to earn revenue on the treatment through license fees and direct product sales. A distribution agreement for the European market has already been arranged with Germany's Celesio, AG and additional relationships are planned.

Current cash resources are adequate to complete the Phase II clinical trial focused on binge eating. The Company has been relying on the issuance of common stock to provide the capital needed for its development program. Lightlake became public through a reverse merger transaction in July 2009 and its shares trade on the OTC/BB under the symbol LLTP.

FINANCIAL PERFORMANCE



Dollars in millions; fiscal year ends December.

Source: Company Reports

MARKET DATA

Price: \$0.50 (10/28/11)
 52 Wk Hi-Lo: \$0.94 - \$0.20
 Ave. Volume: 39 K
 Short Interest: <1%
 Beta: na

VALUATION

Price/Sales: na
 Price/CFO: neg
 Price/EPS: neg
 Price/Book Value: na

Based on TTM ending 7/31/11

Consensus EPS FY11: na
 Forward PE: na
 Consensus EPS FY12: na
 Forward PE: na

EQUITY SECURITIES

Common Shares Out: 73.6 M
 Insiders: 33.6%
 Float: 48.9 M
 Institutional: <5%

5% Holders: 5.0 M *

Common Dividend: nil

Preferred Shares: -0-

Warrants and Options Outstanding: 20.5 M

*Composed of 5.0 million shares held by Pelikin Group, the founding group owned by certain member of the current management team

As of 7/31/11

INVESTMENT HIGHLIGHTS

Positives

- ♦ Large, under-served market opportunity represented by patients suffering from eating disorders such as binge eating and bulimia
- ♦ Extensive entrepreneurial experience coupled with knowledge of the healthcare field represented in the management group
- ♦ Strong advisory group and board of directors composed of individuals with experience in drug development and commercialization as well as corporate finance transactions
- ♦ Limited competition as scientific barriers to entry have deterred the number of developers targeting opioid science
- ♦ Potentially high profit margins from business model that includes revenue streams from for license fees and direct sales
- ♦ Supportive strategic relationships in the scientific and healthcare field, including development partners and distributors

Negatives

- ♦ Developmental stage operation with significant time to revenue generation and positive cash flow; expectations for significant reported net losses over the coming quarters
- ♦ Drug pipeline composed of candidates in at Phase I and Phase II development stages, leaving significant development risk ahead
- ♦ While individually experienced, as a team the current management team and board of directors have a limited history of operation and no commercial drug successes
- ♦ Thinly capitalized with limited cash resources to support operations; going concern opinion from previous auditor
- ♦ Significant ownership by insiders who can influence strategic direction
- ♦ Largely unseasoned stock that is infrequently traded and quoted with wide bid-ask spread; potential 28% dilution from exercise of derivatives
- ♦ Majority of operations are conducted outside the U.S., complicating efforts by U.S.-based investors to monitor the Company's progress

OPERATING RESULTS

	<u>Incep*</u>	<u>FY09</u>	<u>FY10</u>	<u>9 Mo 10</u>	<u>9 Mo 11</u>	<u>FY12 Est</u>
Sales	-0-	-0-	-0-	-0-	-0-	\$ -0-
Oper. Inc.	(\$2.1)	(\$0.0)	(\$2.0)	(\$1.5)	(\$6.7)	
Net Inc.	(\$2.1)	(\$0.0)	(\$2.0)	(\$1.5)	(\$6.7)	
CFO	(\$3.3)	(\$0.1)	(\$0.4)	(\$0.3)	(\$2.8)	(\$3.7)
EPS	na	(\$0.0)	(\$0.02)	(\$0.02)	(\$0.09)	
ROE	neg	neg	neg			
ROA	neg	neg	neg			

Dollars in millions except EPS; Fiscal year ends July 31

*From inception in June 21, 2005 to April 30, 2011

Source: Company Reports and Crystal Equity Research Estimates

COMPARABLES/PEERS

- ♦ **Aoxing Pharmaceutical Co. Inc.** (AXN: NYSE AMEX)
- ♦ **Roxane Laboratories** as Boehringer Ingelheim GmbH (BING: GY)
- ♦ **Daiichi Sankyo Co., Ltd.** (4568: Tokyo)
- ♦ **Forest Laboratories, Inc.** (FRX: NSYE)
- ♦ **Reckitt Benckiser Group, Plc.** (RB: London)
- ♦ **Shire Plc** (SHPGY: Nasdaq)
- ♦ **Teva Pharmaceuticals Industries Ltd.** (TEVA: Nasdaq)
- ♦ **Uluru, Inc.** (ULU: NYSE)
- ♦ **Vivus, Inc.** (VVUS: Nasdaq)

OUTLOOK

Lightlake Therapeutics recently entered a critical stage, commencing Phase II clinical trials for its primary drug candidate. Accordingly, a stake in its common stock offers an investor the opportunity to speculate on a positive outcome through a long position in the Company's common stock. Long-term the stock offers investors a compelling play on an underserved market for addiction disorders.

In our view, the stock is priced as an option on management's ability to successfully execute on the clinical trial and then apply for approval from regulatory authorities in Europe, the U.K. and the U.S. The clinical trial has been populated, sometimes the most difficult and time consuming step. Favorable results should serve as a strong catalyst for the stock even before regulatory approvals are announced. LLTP is likely to continue trading with a significant spread between bid-ask prices that could lead to losses if held short-term. Accordingly, the shares are particularly interesting for risk-oriented investors with long-term investment horizons.

PATENT PORTFOLIO

- ♦ **European Patent**
EP1681057B1 & U.S. Patent
#7,910,599

User patents for safe and effective treatment with proprietary pharmaceutical medicine-based behavior program

- ♦ **U.S. Patent #5,587,381**

Relating to the use of opioid antagonist as treatment for extinction of opiate-taking responses

RELATIONSHIPS

- ♦ **National Institute of Health and Welfare, Helsinki** - drug trial affiliate (binge eating)
- ♦ **King's College London** - Phase II drug trial affiliate (bulimia nervosa)
- ♦ **Imperial College London** - Phase III drug trial affiliate
- ♦ **FIMEA Regulatory Authority** - European drug regulator
- ♦ **Federal Drug Administration** - U.S. drug regulator
- ♦ **Celesio AG** - drug distributor
- ♦ **Peter Messineo, CPA** - auditor
- ♦ **Nuwa Group** - investor relations representative

INDUSTRY CALENDAR

- ♦ **CS Annual Healthcare Conference**, Nov. 8-11, 2011, Phoenix
- ♦ **Oppenheimer 22nd Annual Healthcare Conference**, Dec. 13-14, 2011, New York City
- ♦ **JP Morgan Healthcare Conference**, Jan. 9-12, 2012, San Francisco
- ♦ **Biobusiness 2012**, Jan. 31-Feb. 2, 2012, London
- ♦ **UBS 22nd Annual Global Healthcare Services Conference**, Feb. 7-8, 2011, New York City
- ♦ **BD Biotech Conference**, April 16-17, 2012, Boston
- ♦ **CEO Biotech Conference**, June 11-12, 2012, Boston

CORPORATE HISTORY

- June 2009** - Reverse merger through issuance of 5.0 million shares to Belmont Partners LLC
- July 2009** - Purchase of Belmont shares by Pelikin Group, controlled by Dr. David Sinclair and colleagues
- Aug. 2009** - Issuance of 130.5 million new shares (20 for 1) in a forward split of the Company's common stock
- Aug. 2009** - Issuance of 20.0 million shares to Dr. David Sinclair and partners for consideration of European patent and U.S. patent application related to treatment program involving opioid antagonists
- Sept. 2009** - Name change to Lightlake Therapeutics, Inc.; stock trading symbol change to LLTP
- Oct. 2009** - Appointment of Dr. Roger Crystal as Chief Executive Officer
- Jan. 2010** - Cancellation of 100.0 million shares of common stock held by Pelikin Group
- Nov. 2010** - Appointment of Dr. Michael Sinclair (no relation to David Sinclair) as Chairman of Board of Directors
- Dec. 2010** - Appointment of Mary Pendergast as Advisor for Regulatory and Strategic Matters
- Feb. 2011** - Appointment of Martin Wilkins as Medical Advisor
- Mar. 2011** - Appointment of Dr. Cynthia McCormick as Senior Clinical and Regulatory Advisor
- April 2011** - Appointment of Geoffrey Wolf as director

BUSINESS DESCRIPTION

Lightlake Therapeutics management is aiming the Company toward a berth in the pharmaceutical sector as a specialist in the use of opioid antagonists for treatment of addiction-related disorders. The Company is building on patents related to opioid antagonist treatments, principally a treatment program originated by the Company's founder and Chief Science Office Dr. David Sinclair. Lightlake is presently executing on a Phase II clinical trial to prove the effectiveness of its *intranasal naloxone* treatment, which is expected to be completed in the next year.

The Company expects to commercialize the treatment program through a combination of licenses to pharmaceutical industry partners and product sales to distributors. Lightlake has an agreement with the leading German drug distributor, Celesio AG, which supplies pharmaceutical products to over 65,000 outlets in Europe. Additional development and distribution strategies are under consideration. The Company plans to finalize commercial strategies while the current Phase II trial is underway.

PIPELINE DEVELOPMENT HISTORY

- Aug. 2009** - Acquisition of European patent and U.S. patent application from Dr. David Sinclair for proprietary medicine-based treatment program
- Nov. 2009** - Ethical approval to screen subjects for proposed Phase II clinical trial to test treatment of patients with binge eating disorder
- May 2010** - Ethical approval of Phase II clinical trial of naloxone treatment
- Dec. 2010** - Acquisition of U.S. Patent #5,587,381 involving the use of an opioid antagonist as a treatment for 7,116,667 warrants
- Mar. 2011** - Issuance of U.S. Patent #7,910,599 for proprietary medicine-based treatment program
- Oct. 2011** - Commencement of Phase II clinical trial of *intranasal naloxone* treatment for binge eating
- Oct. 2011** - New partnership with King's College London to complete Phase II clinical trial of *intranasal naloxone* treatment for bulimia nervosa

BALANCES

<i>In thousands</i>	<u>7/31/10</u>	<u>4/30/11</u>
Cash	\$ 2	\$157
Current assets	\$ 2	\$157
PP&E, net	\$ 20	\$ 26
Total assets	\$ 22	\$183
Accts. Payable	\$204	\$104
Other Payables	\$ 74	\$ 36
Current Liabilities	\$278	\$140
Due to related party	\$381	\$308
Equity (Deficit)	(\$637)	(\$265)
Shares Outstanding	62,508	73,598
Warrants and Options	-0-	20,487

Dollars, shares and derivatives in thousands

Source: Company Reports and Crystal Equity Research Estimates

CASH FLOW AND BALANCES

Unexpectedly for a developmental stage company, Lightlake's balance sheet is uncluttered by numerous obligations. This is largely due to strict discipline budgetary controls. The Company reported \$156,518 in cash on its balance sheet at the end of April 2011. Working capital was positive, totaling \$17,000.

The only encumbrance is a note for \$308,969 due to a related party. The chief executive officer has made advances to the Company for working capital requirements. There are no terms or repayment arrangements and the amount is non-interest bearing.

Lightlake operations used a total of \$0.4 million in cash during the fiscal year ending July 2010, the first full twelve month period the Company operated as a public company. Cash usage increased dramatically in the period to a total of \$2.8 million in the first nine months of fiscal year 2011, a period ending April 2011. This is largely due to the ramp-up of efforts related to clinical trials on the Company's *intranasal naloxone* therapy.

We estimate cash usage could remain significant for the balance of calendar year 2011 and through 2012 as the Company completes Phase II trials in Helsinki and files regulatory applications. Management believes current cash resources are adequate to complete the current Phase II trial.

Issuance of new common stock is expected to remain the primary capital resource. The Company issued a total of 4.2 million shares in FY2010 and 12.1 million shares in the first nine months of FY2011, bringing total shares to 73.6 million.

EARNINGS COMPARISONS**As Reported**

	<u>3Q10</u>	<u>2Q11</u>	<u>3Q11</u>
Sales	\$ -0-	\$ -0-	\$ -0-
Oper. Loss	(\$217)	(\$995)	(\$5,399)
Margin	<i>neg</i>	<i>neg</i>	<i>neg</i>
Net Loss	(\$217)	(\$995)	(\$5,399)
CFO	(\$ 56)	(\$329)	(\$2,315)
Loss/Share	(\$0.00)	(\$0.01)	(\$0.08)

As Adjusted for Non-cash Charges*

	<u>3Q10</u>	<u>2Q11</u>	<u>3Q11</u>
Sales	\$ -0-	\$ -0-	\$ -0-
Op Inc (Loss)	\$337	(\$1,100)	(\$ 739)
Margin	<i>neg</i>	<i>neg</i>	<i>neg</i>
Net Inc (Loss)	\$337	(\$1,100)	(\$ 739)
CFO	(\$ 56)	(\$ 329)	(\$2,315)
E/LPS	\$0.00	(\$0.01)	(\$0.01)

Dollars in thousands except L/EPS;

Fiscal year ends July

**Crystal Equity Research Estimates.*

OPERATING SUMMARY

As a developmental stage company, Lightlake Therapeutics has not yet generated revenue. Eventually the Company expects to record license fees as well product sales.

Lightlake expenses are limited to general and administrative expenditures for staff and professional services as the Company executes on its plan to gain regulatory approval of its compounds. The operating loss was \$2.0 million in the fiscal year ending July 2010, the first full year of operations as a public company. Since other income is negligible and the Company has no tax liability the net loss is equal to the operating loss.

In the first nine months of fiscal year 2011, ending April 2011, the Company reported an operating loss of \$6.7 million. This compares to an operating loss of \$1.5 million in the same period of the prior fiscal year. The dramatic increase was due largely to an increase in staffing and significantly higher expenses associated with the planning and design of a clinical trial to investigate the use of *intranasal naloxone* for patients with eating disorders. The majority of the expenses were recognized in the third fiscal quarter ending April 2011, when operating expenses totaled \$5.4 million resulting in an operating loss in that amount.

Adjusting operating expenses for non-cash and non-recurring expenses, we estimate the operating loss in the third fiscal quarter ending April 2011, would have been \$739,000. Non-cash expenses recorded in the quarter included the issuance of common stock valued at \$3.4 million for the performance of services. We estimate the adjusted net loss was \$0.01 in the quarter.

DEVELOPMENT PLAN

Lightlake has commenced a random, double blind placebo controlled trial in Helsinki, Finland. The six-month clinical trial involves 138 patients who have the appropriate genetic markers for the study parameters.

Intranasal spray has been identified as best drug delivery choice for an eating disorder therapy. Unlike an injectable it is easily handled by patients and can be administered spontaneously when required. Intranasal delivery has also been determined to be faster acting than table form. A nasal spray manufacturer has been selected for the trial.



MARKET OPPORTUNITY

Binge eating disorder is the most common eating disorder in the U.S. As many as 3.5% of women and girls and 2.0% of men and boys are sufferers. Almost one-third of people seeking weight loss treatment suffer from an eating disorder. Binge eating is characterized by consumption of abnormally large quantities of food at rapid rates to the point of physical discomfort and nausea.

Conventional treatments for binge eating disorder include cognitive behavior therapy and interpersonal psychotherapy. Such methods attempt to change unhealthy eating habits and improve personal relationships for better self-esteem. Drug therapy such as antidepressants have been used with some patients, including Prozac, Zoloft, Paxil and Luvox.

No definitive cause has been established for bingeing or any of the other eating disorders such as bulimia or anorexia. The National Center for Addiction and Substance Abuse at Columbia University found in 2004 study that up to 35% of alcohol or illicit drug abusers have eating disorders compared to 3% of the general population. The study appears to establish a link between substance abuse and eating disorders.

A second paper published in 2008 by Gunborne Palme describes the similarities between eating disorders and addictive conditions such as alcoholism. The human brain has special reward centers which are activated when a engages in behaviors that ensure survival. Upon activation the body releases the chemical dopamine, which elevates mood. While good health, receiving praise, exercise, sensible behaviors are the typical triggers, reward centers can be activated by artificial means. If reward centers are stimulated by drugs or abuse of food, they cease to function properly. Improper triggering of reward centers is especially common among people who have a personality requiring inordinate rewards.

Because clinicians have overlooked the link between substance abuse and eating disorders, appropriate treatment options are virtually nonexistent. The Company believes physicians are anxious for new treatments and will be receptive to its *intranasal naloxone* treatment.

MARKET POSITION

Lightlake's *intranasal naloxone* treatment development follows earlier scientific work establishing the existence of four major types of receptors to opioid drugs, which are among the world's oldest known, most popular drugs. Pharmacological studies have determined that opiate drugs impact specific receptor sites most of which are in the human brain. Additional work found opioid antagonists that can competitively bind to the opioid receptors with higher affinity than opioid drugs but do not activate the receptors. This effectively blocks the receptor, preventing the body from responding to opioid or related stimulators. Examples of such compounds include nalmepine, naltrexone and naloxone.

Biotie developed nalmepine in the 1907s, licensing it to H. Lundbeck AS, which now sells the compound under the brand name Revex. Naltrexone was developed by Alkermes and is used primarily in the management of alcohol and drug dependence. Naltrexone is sold by Alkermes under the brand Vivitrol in the U.S. Indeed, the Sinclair Method developed by Dr. David Sinclair, the CSO of Lightlake calls for the administration of naltrexone in combination while continuing normal drinking habits in order to decrease the craving for alcohol over time. Another antagonist, naloxone, was developed by Sankyo in the 1960s. It has been used to counter the effects of heroin or morphine overdose usually through an intravenous injection. The Reckitt Benckiser Group combined naloxone with buprenorphine and markets the compound under the brand names Suboxone and Subutex as substitutes for methadone. Roxane Laboratories, owned by Boehringer Ingelheim, and Teva Pharmaceuticals produce generic versions of buprenorphine.

Lightlake believes it is the first to address eating disorders with opioid antagonist therapy. The Company has determined that naloxone is the best opioid antagonist option for treating eating disorders. With a long half-life naltrexone and nalmepine remain in the body for sometime, suppressing libido, appetite and desire for exercise. In contrast naloxone has a one hour half life and remains in the body only a short time. Within a few hours positive behavior such as proper eating habits are free to come through.

LEADERSHIP

David Sinclair, Chief Science Officer and founder of Lightlake Therapeutics, is an acclaimed clinician and researcher in the field of addiction. Sinclair's patented *The Sinclair Method* is used by alcohol clinics around the world. Additionally, he has patented similar treatments for various forms of drug addiction, including the use of naltrexone for treating amphetamine abuse. He authored the book "*The Rest Principle: A Neurophysiological Theory of Behavior.*" David Sinclair received his doctorate from the University of Oregon. He is a member of Finland's National Institute for Health and Welfare.

Roger Crystal, Chief Executive Officer and Director, brings to Lightlake valuable experience both as a medical doctor and investment banker. Crystal is a member of the Royal College of Surgeons of England. He holds degrees in medicine and physiology from University College London. He also holds a master of business administration from the London Business School.

Seijin Ki, Chief Financial Officer and Director, Ki earned a bachelor of arts degree from the University of Western Ontario in Canada. Ki has extensive experience in early stage business in a variety of sectors. He also serves as a director and officer of Pelikin Group, Inc., the foundational group of investors of Lightlake Therapeutics.

Stephanie Lappi, Chief Operational Officer, is responsible for coordinating Lightlake's clinical trials. Her prior experience includes serving as an advisor for the New Enterprise Agency and lecturer for the Helsinki School of Economics. Ms. Lappi is the daughter of David Sinclair.

Hannu Valojarvi, Business Development Manager, is a long-time collaborator of Dr. David Sinclair and an experienced entrepreneur. Valojarvi has a graduate of the Helsinki School of Economics.

No relation to the Dr. David Sinclair, the Company's founder and Chief Science Officer, **Michael Sinclair is chairman of Lightlake**. Dr. Sinclair is a physician specializing in psychiatry and has extensive experience in the business elements of healthcare from early stage to fully operational enterprises. He serves on the boards of Tufts University Medical School in the U.S., Symthera, Inc., Care Capital Group, Plc, and Emess Biosciences, Ltd.

Geoffrey Wolf, Director, was appointed to the board of directors in April 2011. Wolf brings to Lightlake extensive business expertise in variety of industries, including pharmaceuticals, metals, mining, oil and gas and real estate. His experience includes capital raising and mergers and acquisitions. He earned a master of business administration in London.

ADVISORY BOARD

Mary Pendergast, Chair of Lightlake's Advisory Board and Regulatory Advisor, is the president of Pendergast Consulting, a legal and regulatory consulting firm. She was previously head of government affairs for Elan Corporation and a deputy commission of the U.S. FDA.

Martin Wilkins, Medical Advisor, is a professor of clinical pharmacology at the Imperial College London. He is a clinician scientist with a background in clinical pharmacology and toxicology.

Cynthia McCormick was appointed Senior Clinical and Regulatory Advisor in March 2011. Dr. McCormick was previously a division director at the U.S. Federal Drug Administration and oversaw the review and approval of agents and drugs for the treatment of addiction, including naloxone, a key component of Lightlake's addiction therapy.



CAPITALIZATION

Recent Price:	\$0.50
Shares Out:	73.6 M
Market Capital:	\$36.8 M
+ Preferred Stock	\$ -0- M
+ Debt	\$ 0.3 M
- Cash	<u>\$<0.1 M</u>
Enterprise Val:	\$37.1 M
Book Value:	(\$ 0.3) M
Working Capital:	<\$ 0.1 M

Balances as of 4/30/11

Source: Company Reports and
Crystal Equity Research Estimates

OWNERSHIP

	Shares of <u>Common Stock</u>
Insiders:	
M. Sinclair, Chairman	-0-
G. Wolf, Director	-0-
R. Crystal, CEO, Dir.	0.5
S. Ki, CFO, Director *	5.0
D. Sinclair, CSO	6.4
S. Lappi, COO	6.3
H. Valojarvi, Bus. Dev.	<u>6.5</u>
Total Insiders (in millions)	24.7
As % of Shares	
Outstanding	33.6%
5% Holders (in millions) *	5.0
As % of Shares	
Outstanding	6.7%

*Includes interest in 5.0 million shares held by Pelikin Group owned among others on the management team by the original developer of Lightlake Therapeutic's foundational science

Shares in millions

Source: Company Reports and
Crystal Equity Research Estimates



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