

## MARKET DATA

Recent Price as of 10/19/10: C\$0.80

52-week Range: \$0.68—\$1.53

Shares Outstanding: 35.31 MM

Market Capitalization: \$36.3 MM

Public Float: 26.6 MM

Insider/Closely Held Ownership:  
39.9%

Fiscal Year-end: Dec. 31

“CRAiLAR trial results exceeded our expectations, and we are eager to move forward to determine the size and scope necessary for volume production.”- Mike Faircloth SVP , Global Supply Chain Support of Hanesbrands Inc.



### ANALYSTS

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LEVEL II CANDIDATE IN THE CFA  
PROGRAM

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FLAME DESIGN

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## Naturally Advanced Technologies Inc. (OTCBB: NADV, TSXV: NAT)

Sector: Consumer Goods CIK: 0001210294

Industry: Consumer Non-Durables (Cyclical) SIC: 5699 N

AICS: Other Apparel Accessories and Other Apparel Manufacturing (315999)

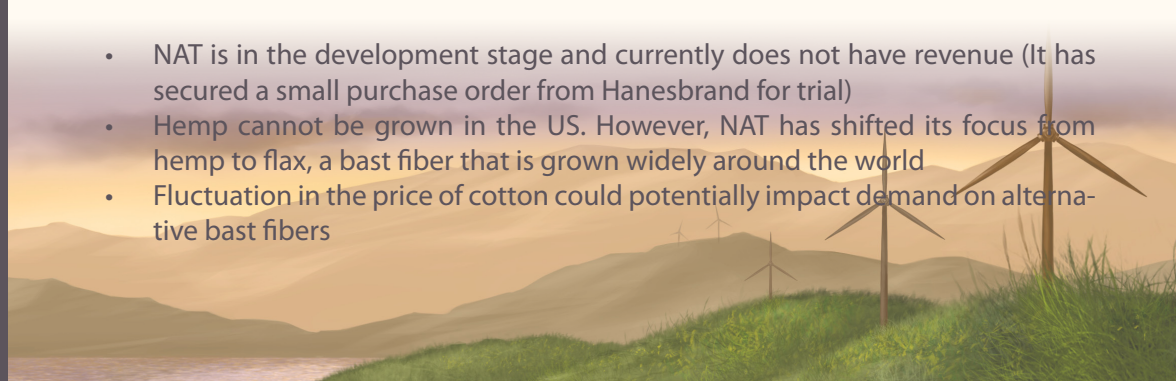


### INVESTMENT HIGHLIGHTS:

- Naturally Advanced Technologies (NAT) is in the desirable clean technology industry, offering environmentally sustainable fiber processing technology, steering away reliance on environmentally-taxing cotton to better alternatives such as flax and hemp bast fibers
- Commercializing CRAiLAR<sup>®</sup>, a cost-effective disruptive technology (patented enzymatic bath) that turns flax and hemp bast fibers into cotton-like materials. Developed with National Research Council of Canada (NRC)
- Joint development agreements signed with Hanesbrands (NYSE:HBI) and Georgia-Pacific Consumer Brands and partnerships with Alberta Research Council to develop CRAiLEX<sup>®</sup> pulping process
- Rising prices of cotton drive manufacturers to seek cost-effective alternatives

### RISKS:

- NAT is in the development stage and currently does not have revenue (It has secured a small purchase order from Hanesbrand for trial)
- Hemp cannot be grown in the US. However, NAT has shifted its focus from hemp to flax, a bast fiber that is grown widely around the world
- Fluctuation in the price of cotton could potentially impact demand on alternative bast fibers



## KEY FINANCIAL DATA (FYE - DEC. 31)

(US\$)	(3 Months Ending June 2010)
Cash on hand	\$877,003
Cash Burn Rate	\$150,000/month
Working Capital	(\$654,639)
Current Ratio	0.59
Total Assets	\$ 1,158,820
Total Liabilities	(\$1,607,631)

## INDUSTRY OVERVIEW

The global textiles and clothing industry has a market size of over US\$480 billion and is expected to grow to about US\$700 billion by the year 2012 (International Fabric and Accessories, 2008). The global textile and apparel market grew by 2.87% in 2009 and 3.22% in 2008. The compound annual growth rate of the industry in the period 2001-2009 was 2.6%. The compound annual growth rate of the industry in the period 2006-2011 is expected to be 3.24%.

Despite the large global market for apparels and textiles, only 1% of the global harvest is organic cotton. Organic cotton now represents 0.76% of global cotton production. There has been a movement from cultivating cotton to organic cotton as cotton is notorious for its heavy use of insecticides and water. Cotton uses 16% of the world's insecticides but only cover 2.5% of the world's cultivated land. Its insecticide requirement is more than other single major crop. Organic cotton is grown free from insecticide and chemical fertilizers. According the Organic Exchange

non-profit group, there has been a dramatic increase in retail sales of organic cotton apparel and home textile segment at 40% per year since 2001. In terms of production, organic cotton production is forecasted to grow between 20-40% through 2010 as the production has grown 20% in 2008/2009 over 2007/2008 across India, Turkey, Pakistan and 19 other countries. This growth in organic cotton shows that there is a demand for organic fibers. However, organic cotton is priced at a premium compared to regular cotton so its adoption rate is limited. On the other hand, CRAiLAR<sup>®</sup> fiber is competitive and cheaper than regular cotton and should have a faster adoption rate.

Flax and hemp plants exhibit advantages over organic cotton. The hardy flax/hemp plants grow faster requires less water and produces stronger fibers. (See Table 1) In addition, cotton price has been increasing steadily since March 2009 and broke through the one dollar (per pound) mark for the second time in its history, up to 115.6 cents/lb by September 2010 from a low of 51.50 cents/lb in March 2009. The pressure behind the increase in price is from a recovery in demand coupled with a declining in output in 2008/2009 as farmers were discouraged from planting cotton due to its low price in 2008/2009. A recent flood in Pakistan further intensified worries over stock shortages. It is projected that cotton stock will continue to shrink as demand will continue to exceed supply mildly for the 2010/2011 crop year. Increase in global supply is expected to moderate the average price of cotton.

TABLE 1. INDUSTRIAL FLAX/HEMP VS. ORGANIC COTTON

CELLULOSIC FIBER	ORGANIC COTTON
Requires only regular rainfall	Needs regular irrigation
Faster growing, high-yielding crop	
Grows in cold weather as far north as 62° N. latitude	Top producing countries (India, Turkey, Syria, Tanzania) located in warm climate
Flax is widely cultivated around the world. Hemp has restrictions.	Widely cultivated around the world
Hardy. Shades out weeds and has fewer natural insect enemies. No or little chemical fertilizer or pesticide input	Requires more attentive cultivation. No or little chemical fertilizer or pesticide input
Test fabrics (20% CRAiLAR & 80% cotton yarns) used conventional cotton-spinning equipment & existing infrastructure with the following results: <ul style="list-style-type: none"> <li>- Reduced shrinkage 50%</li> <li>- Increase burst strength 45%</li> <li>- Reduced dye uptake 20%</li> <li>- Demonstrated wicking capabilities</li> </ul>	

## COMPANY OVERVIEW

Naturally Advanced Technologies Inc. is a clean technology company focused on providing environmentally friendly textile, composite, biomass and pulping solutions through the cost effective processing of industrial hemp and other bast fiber crops. NAT is bringing sustainable bast fiber-based products to market, providing environmentally friendly natural fiber alternatives for a broad range of existing and emerging product applications, with equivalent or superior performance characteristics to cotton, wood or fossil-fuel based competitors. Business operations consist of the development and execution of our proprietary processing platforms called CRAiLAR® and CRAiLEX® technology, which are bast fiber processing technologies targeted at the textile, pulping, composite and plastics industries.

## COMPANY HISTORY

Founded in 1998 in Vancouver, British Columbia, Canada as HempTown Clothing Inc.. NAT's original focus was selling and manufacturing hemp clothing. It became the largest seller of hemp t-shirts in the world.

In 2003, NAT became publically listed on the U.S. Over the Counter Bulletin Board (NASDAQ OTCBB : HPTWF)

In 2004, NAT secured its collaboration agreement with the National Research Council Canada (NRC). Leading research activities at NRC is Dr. Wing Sung, who is one of the leading international experts on enzymes. He is currently working to find ways to improve the quality of hemp fiber. NAT has an exclusive global licensing agreement with the National Research Council.

In 2006, NAT changed its name to Naturally Advanced Technology with two new subsidiaries: CRAiLAR® Fiber Technologies Inc. and Hemptown Clothing. CRAiLAR® Fiber Technologies was formed to produce high-tech, high-strength natural fiber for the textile and composite industry. Hemptown Clothing continued to sell hemp clothing with its HT Naturals division.

In 2007, NAT entered a Master Agreement for Technology Development, an agreement with the Alberta Research Council (now Alberta Innovates), for the development of bast fiber technology.

In 2008, NAT announced it has spun hemp yarn and knitted fabric on conventional cotton equipment with no modifications at North Carolina State University

with no modifications at North Carolina State University using CRAiLAR® Organic Fibers technology. The trials were sponsored by Hanesbrands Inc. (NYSE: HBI). Trials deliver industrial hemp blend yarn and fabric using conventional cotton E\equipment with no modifications.

In 2009, it has proven to be an eventful year for NAT. NAT and Patrick Yarns, a world-leading manufacturer of high performance industrial yarns, signed a trademark licensing agreement. Under the terms of the non-exclusive, non-transferable license, Patrick Yarns will make and manufacture CRAiLAR® Organic Fiber yarns and related products for sale and distribution in North America to third party licensees of CRAiLAR®.

In the same year, NAT and Georgia-Pacific Consumer Products LP, a world leading manufacturer and marketer of tissue, packaging, paper, cellulose, building products and related chemicals, entered into a Joint Development Agreement to explore applications of technology licensed by NAT from the National Research Council (Canada). In the 2009 fiscal year, NAT determined it prudent to close its apparel division HTnaturals and became a technology company focus on its CRAiLAR® and CRAiLEX® technologies.

## RECENT DEVELOPMENTS

In January, 2010, NAT received a purchase order from Hanesbrands Inc. to deliver approximately 10,000 lbs of CRAiLAR® Organic Fiber in the first quarter of 2010.

In February, 2010, NAT amended its agreement with the National Research Council (NRC) of Canada to include collaboration on cellulose technology research for the production of cellulosic ethanol from sustainable feedstock, such as corn stalks and straws, which is the unexploited byproduct in agri-food production. The original agreement included only the design and construction of advanced enzyme technology for the extraction and cleaning of industrial hemp fiber for the textile sector. As this research is in the final stages, the two parties have agreed to divert existing funding commitments to pursue additional opportunities for the advanced enzyme technology, namely in cellulosic ethanol.

In April, 2010, NAT and Hanesbrands Inc. jointly reviewed the results of the CRAiLAR® Organic Fibers spinning trials and have agreed to enter the final stage of their joint development agreement, which is expected to result in a commercialization agreement in the near future. NAT completed its full scale commercial processing trials in Germany and replicated the trials at the G.J. Littlewood

& Son processing facility in Pennsylvania. These trials have confirmed the effectiveness of the CRAiLAR process on other bast fibers such as flax. Spinning trials, which were conducted at Patrick Yarns in Kings Mountain, NC, verified the commercial quality and volume capabilities of CRAiLAR® Organic Fiber to be spun with finer yarn weights blended with 80% cotton and 20% CRAiLAR® Organic Fiber.

In September 2010, NAT announced that they have created a sustainable, commercially viable complement to cotton using flax as a raw material. After successfully transforming hemp fibers into yarns and fabrics with the desirable qualities of cotton, NAT stated it is now engaged in a strategic shift to use flax fibers as the foundation for the next phase of its proprietary CRAiLAR® Organic Fiber technology.

Flax is easy to grow with minimal use of herbicides, pesticides and engineered irrigation and is abundant in the U.S. and Canada, which significantly reduces costs from a supply-chain perspective as compared to other natural fibers. The CRAiLAR® process can also be used with the stalk portion of the oilseed flax plant --- traditionally cultivated for food and industrial applications --- which would normally be discarded during processing. Making use of this byproduct, in addition to processing fiber-variety flax, further enhances CRAiLAR's sustainability factor.

The all-natural, 100%-organic CRAiLAR® process is the first to successfully

remove the binding agents from flax that contribute to its stiff texture.

The process bathes bast fibers in a proprietary enzyme wash that transforms them into soft, yet strong and durable textile fibers, which can be used in both fashion and industrial applications. Fibers made through the CRAiLAR® process have the comfort and breathability of cotton, with the strength, moisture-wicking properties and shrink-resistance of sturdy bast fibers. NAT's recent trials have proven that flax can be spun on existing machinery to produce a yarn that can be used alone or blended with other fibers.

### PROPRIETARY TECHNOLOGY

NAT has two brand platforms: CRAiLAR® Organic Fibers and CRAiLEX® Advanced Materials.

*"This is an industry first," said Ken Barker, CEO of Naturally Advanced Technologies. "With cotton prices currently at 90-93 cents per pound, flax is a cost-effective raw material for fiber production. The productivity of our process using flax is twice as efficient as it is with hemp, yielding nearly twice as much usable fiber after going through the CRAiLAR process. Our recent spinning trials with CRAiLAR-processed flax have been highly successful."*

The CRAiLAR® Organic Fibers division is focused on CRAiLAR® applications in the apparel and textile industries. Using the core fiber from the bast fiber crop, CRAiLAR® Organic Fibers can be spun into a traditional yarn. CRAiLAR process confirmed effective on flax and hemp. The current status of CRAiLAR® Organic Fibers is near term development/commercialization.

CRAiLEX® Advanced Materials division is focused on developing technologies for the processing of eco-friendly cellulose-based fibers in Pulp and Paper, Bioplastics and Performance Apparel industries. The current status of CRAiLEX® Advanced Materials is near term development/commercialization.



## MANAGEMENT & BOARD OF DIRECTORS (key managers and one notable independent director)

**Kenneth C. Barker**  
CEO & Director

Mr. Barker has been our Chief Executive Officer since August 24, 2006 and is a member of our Board of Directors since February 6, 2006. Mr. Barker has over twenty-three years of apparel experience, including merchandising, sourcing and full profit and loss responsibility, public market experience and corporate governance.

Notably, Mr. Barker was head of apparel for adidas® North America, where he was responsible for the entire adidas US apparel business. (adidas AG is listed on the Deutsche Börse stock exchange in Frankfurt and is part of the DAX-30 index, which includes only the largest German companies listed.) Mr. Barker also served as business unit manager of apparel for adidas Canada. Before joining adidas, he was general merchandise manager at Levi Strauss and Co. Canada, where he oversaw both Levi's® and Dockers® brands.

**Jason Finnis**  
Co-Founder, COO & Director

Mr. Finnis has been a member of the Board of Directors since 1998 and our Chief Operating Officer since December 7, 2005. Jason Finnis founded Hemptown® in 1998 and has been an entrepreneur in the hemp industry since 1994. Mr. Finnis is the Chief Operating Officer and is currently involved in CRAiLAR® development and commercialization initiatives and continues to oversee operations of the Company's HTnaturals apparel division.

**Guy Prevost**  
CFO & Director

Guy Prevost has been the CFO of Naturally Advanced Technologies since May 2005. Mr. Prevost has over fifteen years of public and private market financial experience and held the position of controller for a number of other public and private companies. Guy is a member of the Certified General Accountants Association of British Columbia and Canada.

**Larisa Harrison**  
Co-Founder, CAO & Director

Ms. Harrison has been a member of the Board of Directors and our Chief Administration Officer and Secretary/Treasurer since December 15, 2000. In her role as Corporate Secretary, she works with management and the board on corporate governance and compliance matters. Prior to co-founding NAT, Ms. Harrison was employed by one of Canada's largest providers of private label fashion to North American department and chain stores, involved with product development, sales support and production management for a number of clients.

**Peter Moore**  
Director

Mr. Peter Moore has been a member of the Board of Directors since July 11, 2006 and on the Advisory Board since October 2004. Mr. Moore is a former CEO, Adidas North America; and Worldwide Creative Director for adidas AG. Mr. Moore was one of two individuals responsible for creation of the Air Jordan concept during the mid-1980's. He and a colleague founded Sports Inc, a sports marketing company, in Portland, Oregon in 1987, which was eventually acquired by adidas AG in 1992. Today Peter runs his own design and strategic branding consultancy, based in Portland.

## FUTURE PLANS

NAT announced that it aims to commercialize CRAiLAR® through the partnership with Hanes Brand. The company plans to develop a CRAiLAR® brand to create emotional connections with consumer like Gore-Tex®, Lycra & Teflon® and build CRAiLAR® marketing and brand platform to drive Organic Fibers. For CRAiLEX Advanced Materials division, NAT plans to determine scale of decortication facilities producing fiber for pulping and commercialize pulping technology to the pulping industry. NAT sets to expand product line from knits to denim, home furnishings & non-wovens through partnerships with G.J. Littlewoods and Patrick Yarns.

## FINANCIALS

Key Financial Data (US\$)	(FYE - Dec 31) (3mo. Ending June 2010)
Cash on hand	\$877,003
Cash Burn Rate	\$150,000/month
Working Capital	(\$654,639)
Current Ratio	\$0.59
Total Assets	\$ 1,158,820
Total Liabilities	(\$1,607,631)

Working capital=Current Assets – Current Liabilities  
\$952,992 – \$1,607,631 = (\$654,639)

Current ratio=Current assets/Current liabilities  
\$952,992 ÷ \$1,607,631 = 0.59

	30-JUN-10	31-DEC-09	31-DEC-08
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 877,003	\$ 421,452	\$ 319,358
Accounts Receivables	12,320	11,552	113,788
Prepaid expenses and other	40,317	48,367	81,272
Current assets of discontinued operations	23,352	42,218	938,442
	952,992	523,589	1,452,860
<b>NON-CURRENT</b>			
Property and Equipment	127,566	132,185	275,355
Intangible Assets	78,262	85,071	58,223
	1,158,820	740,845	1,786,438
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts Payable	\$ 306,917	\$ 243,313	\$ 256,058
Accrued liabilities	172,446	346,963	217,645
Due to related party	-	-	721,358
Note payable	982,268	-	200,000
Short term loan	200,000	-	26,590
Short term loan	-	-	45,071
Current liabilities of discontinued operations	-	-	-
	1,607,631	581,276	1,466,722
<b>NON-CURRENT</b>			
Note payable	-	200,000	-
Due to related party	-	928,347	-
	1,607,631	1,709,623	1,466,722

	30-JUN-10	31-DEC-09	31-DEC-08
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>			
Capital Stock			
Issued and outstanding:			
35,254,079 common shares (December 31, 2009 - 33,354,215)	12,216,231	10,443,962	8,541,484
Additional paid-in capital	2,286,770	2,011,047	1,370,325
Accumulated Other Loss	(71,287)	(12,840)	(122,274)
Deficit	14,431,714	12,442,169	9,789,535
Deficit Accumulated in the development stage	(2,629,520) (448,811)	(1,159,942) (968,778)	319,716

## VALUATION

The company is a development stage company and there are few, if any, comparable companies. The following conservative valuation is purely for illustrative purposes with figures taken from the company's presentation and the analyst's own assumptions. This assumes sales occur out of CRAiLAR® Organic Fibers division and not from the CRAiLEX® Advanced Materials division. There is no guidance or Pro Forma from the company other than gross revenue and cost of goods sold.

Year	P/E	2012E	2013E
EPS		\$0.17	\$0.34
	8.00x	\$1.38	\$2.75
	10.00x	\$1.72	\$3.44
	20.00x	\$3.44	\$6.88
Net Profit as % of Gross Revenue			60%
Number of Shares			36,300,000
Sum of Discounted Gross Margin Dollars 2011-2016 years			\$73,726,372
Sum of Discounted Net Profit 2011-2016 years			\$44,235,823

## RISKS

The company is in the development stage and currently does not have revenue. It is uncertain whether the company will reach commercial production and provide a return for investors. The technologies under development are firsts of their kinds. There are potentially unforeseen factors that could delay and prevent commercialization. Despite of its long history of usage, industrial hemp cannot be grown in many of the developed countries. It is illegal to be grown in parts of the United States as the U.S. government does consistently not distinguish between industrial/commercial hemp from psychoactive hemp (marijuana). This risk is ameliorated by the company's recent success in trials with flax fibers. Lately there has been a dramatic increase in the price of cotton, however, the higher price of cotton is expected to soften. Fluctuation in the price of cotton could potentially impact manufacturers' demand on alternative bast fibers such as hemp and flax.

## CONCLUSION

With the growing global movement to find more environmentally sustainable alternatives in practically every areas of life, NAT presents a compelling case with its cutting-edge technological solutions. The technologies promise to alleviate issues such as water shortage and heavy pesticide use associated with growing cotton. There is an opportunity with forest-free pulp and paper products and non-petroleum-based performance apparels. NAT is at an advanced stage of development and commercialization with Georgia-Pacific and Hanesbrand. If NAT can successfully commercialize its technologies and create an emotional connection with consumers with CRAiLAR Organic Fibers and CRAiLEX Advanced Materials, then this company will be a medium (>3 yrs) or longer term buy and hold investment.

### References:

International Fabric and Accessories, 2008  
<http://intexfair.com/march-08/industry-backgrounder.pdf>

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