Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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CIBT Education Group Inc. (TSX: MBA) – Revenues up by 49% YoY in Q1 / Acquires KGIC debt

Sector/Industry: Education Services **www.cibt.net**

Market Data (as of February 2, 2017)

Current Price	**C$0.70**
Fair Value	**C$1.10**
Rating*	**BUY**
Risk*	**3**
52 Week Range	C$0.25 - C$0.65
Shares O/S	72,437,038
Market Cap	C$50.71 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.8x
YoY Return	150.0%
YoY TSX	22.3%

**See back of report for rating and risk definitions*

Highlights

- CIBT Education's ("CIBT", "company") share price is up 17% since our previous report dated December 16, 2016. CIBT shares continue to be one of the best performing stocks of our coverage universe, with shares up by 150% YoY.
- Last week, CIBT announced that they acquired senior secured debt totaling $12.3 million owed by KGIC Inc. (TSXV: LRN) for $3.1 million. We believe this deal may allow CIBT to attain ownership of all of KGIC's existing schools and double revenues.
- CIBT's student housing projects continue to receive strong support from investors. The company recently attracted $17.5 million in Phase I financing for its GEC Education Super Center and GEC Education Mega Center projects. Phase II financings, totaling $71 million, are ongoing.
- Current projects have over 400 beds in operation. Management expects to have approximately 875 beds by spring 2017, and over 2,900 beds under development.
- Rising rents and the low vacancy rate continue to make Vancouver increasingly unaffordable, especially for younger and lower income households. Our outlook on the Vancouver rental market remains strong despite the dramatic slowdown in property sales in the past few months.
- In Q1-2017 (quarter ended December 31, 2016), revenues increased by 49.3% YOY to $13.98 million, and beat our expectations.
- <u>We are raising our fair value estimate from $1.00 to $1.10 per share.</u>

Key Financial Data (in C$); YE - Aug 31	**2014**	**2015**	**2016**	**2017E**	**2018E**
Revenues	30,916,154	32,178,951	36,114,144	44,224,966	47,505,355
EBITDA	(1,183,601)	691,627	(527,312)	5,807,563	7,511,935
EBITDA Margin	-3.8%	2.1%	-1.5%	13.1%	15.8%
Net Income	5,312,961	6,000,774	9,215,414	18,435,641	18,943,074
EPS (Basic)	0.08	0.09	0.13	0.25	0.26
Debt to Capital	14.1%	44.0%	35.6%	50.5%	64.2%
ROE	27.8%	20.1%	17.5%	18.0%	14.8%

**The net profit / loss figures include CIBT's share of the net profit / loss and non-controlling interests.*

Acquires KGIC's debt

On January 25, 2017, CIBT announced that they acquired senior secured debt totaling $12.3 million owed by KGIC Inc. (TSXV: LRN) held by a Canadian bank for $3.1 million. KGIC has 18 locations (2,000 students) operating ELS Schools, Career Colleges and Community Colleges in Toronto, Vancouver and Victoria.

KGIC was placed in receivership in January. Subsequent to the debt acquisition, CIBT's Sprott Shaw was appointed by the receiver (BDO Canada) to manage the operations of KGIC's schools. CIBT has demanded full repayment of the $12.3 million by February 7, 2017. KGIC's management and directors have already resigned from their positions. BDO will shortly put KGIC's assets for sale. **As we believe it is highly unlikely that the assets will get a bid of over $12.3 million, we expect CIBT to win ownership of all of KGIC's assets.** KGIC had generated $23.63 million in revenues in the first nine month of 2016, and gross profit of $2.47 million. CIBT's revenues will more than double if they were to receive all of KGIC's assets.

In the worst-case scenario of the assets being sold for over $12.3 million, CIBT will still end up with a good deal as their debt will be paid in full for which they only paid $3.1 million, resulting in a quick profit of $9.2 million.

The transactions with KGIC have also been highly successful for CIBT in the past. Certain schools currently held by KGIC were sold to them by CIBT in 2013 for $13.5 million, which they had acquired in 2010 for $4.3 million.

In connection with the debt acquisition, CIBT closed a $2.04 million private placement by issuing 3.24 million units at a unit price of $0.63. Each unit consisted of a common share and half warrant (exercise price - $0.75 per share for one year).

Vancouver rental market tighter than ever

CIBT continues to make good progress with its student housing projects in Greater Vancouver. Rising rents, and the low vacancy rate, continue to make Vancouver increasingly unaffordable, especially for younger and lower income households. According to the Canada Mortgage and Housing Corporation ("CMHC"), rents in Metro Vancouver increased by 6.4% YOY. The average monthly rent of a one-bedroom apartment in the City of Vancouver is currently $1,268 versus $1,175 in 2015. The average monthly rent of a two-bedroom apartment is $1,757 versus $1,643. According to the CMHC, as of November 2016, the vacancy rate of purpose-built rental housing in Metropolitan Vancouver dropped YOY from 0.8% to 0.7%.

Our outlook on the Vancouver rental market remains strong despite the dramatic slowdown in residential property sales in the past few months. The slowdown was primarily triggered by the B.C. government's announcement in July 2016, to add a 15% property transfer tax on foreign nationals buying real estate in Metro Vancouver. Another factor that we believe is contributing to the slowdown is the federal government's announcement to increase the required down payment for properties over $500k. The following chart shows the YOY decline in sales in 2016.

	2014	2015	2016
Total Residential Sales Metro Vancouver	33,116	42,326	39,943
YOY Change		27.8%	-5.6%

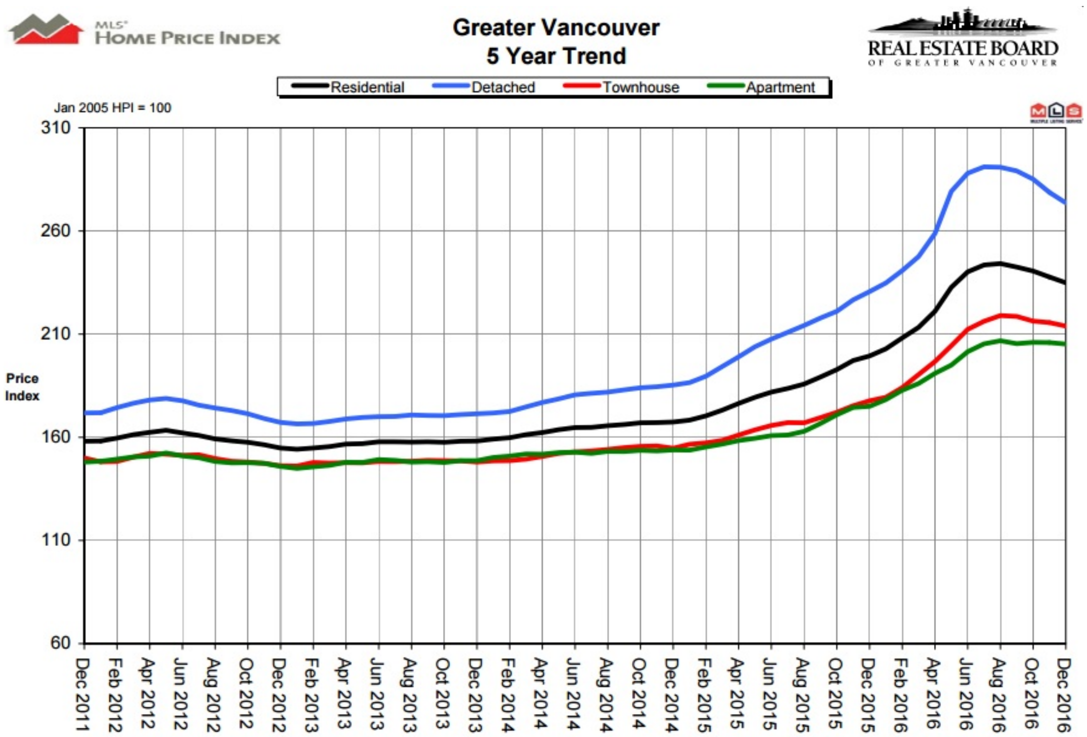
Source: REGBV

December 2016 sales were significantly lower than the same time last year. The supply and demand conditions are different for each property type, with stronger demand for condominiums and townhomes relative to detached properties.

	Dec-16	YOY
Metro Vancouver		
Total Sales	1,714	-39.40%
Benchmark Price	$897,600	17.80%
Detached Properties	541	-52.40%
Benchmark Price	$1,483,500	18.60%
Apartment Properties	915	-25.30%
Benchmark Price	$510,300	17.30%
Attached Properties	258	-44.60%
Benchmark Price	$661,800	20.40%

Source: REGBV

Although prices have dropped in the past few months, they are well above December 2015 levels; see chart below.



We believe a slight correction in prices is healthy for the market's long-term stability. In order to partially offset the move to add property transfer tax on foreign nationals, the B.C. government, in December 2016, announced the introduction of a provincially backed loan program that would match the amount a first-time buyer has saved for a down payment — up to $37,500, or 5% of the home's purchase price on properties valued at less than $0.75 million – a move, we believe, will encourage more first-time buying. Moreover, economic conditions in BC have been robust despite a slowdown in other regions of Canada. In summary, although we have a more cautious outlook, we believe Vancouver's housing market is reasonably healthy in the near-term (due to low supply), and do not expect a major correction. Immigration and foreign investment is expected to continue due to the city's global appeal, Canada's economic stability, and the weakness in the C$. **All these factors, we believe, bode favorably for the Vancouver rental market and CIBT's initiatives.**

Raises $17.5M

On January 8, 2017, the company announced the receipt of a $17.5 million Phase I investment for its GEC Education Super Center (Richmond, BC) and GEC Education Mega Center (Surrey, BC) projects. **Phase II financings, totaling $71 million, are currently in progress with an estimated closing date in the fall.** The total estimated budget of the two projects is approximately $410 million.

The table below shows a summary of the acquired projects and the projects under development, including management projections. The projects have over 400 beds currently in operations. Management expects to have approximately 875 beds by spring 2017, and over 2,900 beds under development.

	Viva	Granville	Burnaby Heights	Pearson	West King Edward II	GEC Education Super Center (Richmond)	GEC Education Mega Center (Surrey)	Total
Projected Annual Rental Income (Management Est.)	$3,500,000	$4,200,000	$1,300,000	$4,200,000	$2,500,000	$16,100,000	$18,800,000	**$50,600,000**
CIBT Ownership	20.0%	20.0%	25.0%	38.5%	21.0%	26.8%	20.0%	
CIBT Management Fee	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Purchase Price / Construction Costs	$36,000,000	$37,500,000	$17,750,000	$42,500,000	$28,000,000	$182,000,000	$230,000,000	**$573,750,000**
Beds	220	240	84	330	184	1000	1400	**$3,458**
Status	Phase 1 complete / Phase II completion by Spring 2017	Operational	Operational	Under Construction (operational by Summer 2017)	Under Development (operational by July 2018)	In Planning Stages (expected completion in Spring 2020)	In Planning Stages (expected completion in Spring 2020)	

*GEC Education Super/Mega Center Ownership may change with project financing.

In Q1-2017, the company reported **revenues from development fees** of $4.46 million, up by 209% YOY from Q1-2016's $1.44 million. We estimate that approximately $1.5 million of the fees recorded in Q1-2017 came from the recognition of the amount that was reversed in Q4 (discussion in our previous report). Our forecast for FY2017 is $5.62 million, and for FY2018, is $4.12 million. These estimates are based on the assumption that 20% of the equity portion of the GEC Education Super Center, and the GEC Education Mega Center, will be recorded as development fees (assuming 90% debt to capital for both projects). Note that our estimates are very preliminary as CIBT's ownership in these projects are subject to project financing.

The company reported **rental revenues** of $1.66 million in the quarter, up by 387% YOY. Revenues primarily came from Viva Suites Hotel / Downtown Vancouver ($0.37 million), Granville / Downtown Vancouver ($1.19 million), and Burnaby Heights ($66k). Note that GEC Burnaby commenced operations in November 2016.

The total **gain in the valuation of properties** was $2.10 million in Q1-2017 versus nil in Q1-2016. The following table shows our estimates of the expected increase in valuations of the three operating assets, Pearson and West Kind Edward II (which are expected to be completed in 2017 and 2018, respectively). We estimate a total valuation gain of $50 million, of which, a total of $17.39 million was reported in FY2015 and FY2016. We estimate the remaining gain will be reported over the next two years. Note that these estimates are also preliminary.

	Viva	Granville	Burnaby Heights	Pearson	West King Edward II	Total
Status	Phase 1 complete / Phase II completion by Spring 2017	Operational	Operational	Under Construction (operational by Summer 2017)	Under Development (operational by July 2018)	
NOI Estimate	$2,400,000	$2,000,000	$1,000,000	$2,520,000	$1,500,000	**$30,360,000**
Cap Rate (assumption)	4.4%	4.4%	4.5%	4.5%	4.5%	
Current Valuation (FRC est.)	$54,545,555	$45,454,629	$22,222,222	$56,000,000	$33,333,333	**$676,889,073**
Gain	$18,545,555	$7,954,629	$4,472,222	$13,500,000	$5,333,333	**$49,805,740**

Revenues up 49% YOY

In Q1-2017, revenues increased 49.3% YOY to $13.98 million. The table below summarizes the company's key divisions and their revenues.

	Q1-2015	Q1-2016	Q1-2017	YOY
SSC + Others				
Revenues	6,111,570	6,314,245	6,878,681	8.9%
Gross Margins	59.64%	57.52%	57.68%	
CIBT				
Revenues	607,057	744,882	480,288	-35.5%
Gross Margins	40.06%	46.25%	42.81%	
IRIX				
Revenues	300,461	224,823	215,882	-4.0%
Gross Margins	68.43%	74.72%	86.15%	
Commissions + Referral Fees				
Revenues	104,888	295,607	276,124	-6.6%
Gross Margins	36.45%	18.95%	43.47%	
Global Education City				
Revenues (rental)		341,787	1,664,615	387.0%
Gross Margins		40.74%	25.91%	
Global Education City				
Development fees		1,443,076	4,464,286	209.4%
Overall Revenues	**7,123,976**	**9,364,420**	**13,979,876**	49.3%
Overall Gross Margins	58.0%	61.8%	67.1%	

Sprott Shaw College ("SSC") and Vancouver International College ("VIC") – Revenues increased by 8.9% YOY to $6.88 million and exceeded our expectations. The newly acquired VIC generated $0.72 million in the quarter, up by 15% YOY.

Earlier this month, the company announced the opening of a new 10,000 sq. ft. SSC campus in Surrey, and a strategic rearrangement of the management team of the Sprott-Shaw Degree College Corp. Mr. Victor Tesan was appointed as the new President of SSC. A brief biography of Mr. Tesan, as provided by the company, follows:

Mr. Tesan brings with him more than twenty years' experience in leadership and management in the private education sector including the development, strategic planning and management of overall college operations. Previously as vice president of Sprott Shaw College between 1994 and 2008 and, most recently, as president and chief operating officer, of Vancouver Career College and CDI College across Canada, he was recognized for his operational and leadership excellence. Mr. Tesan has a proven history of building successful and sustainable organizations and we are very pleased to have him join the Sprott-Shaw Degree College Corp. executive management team.

The company has divided SSC's operations into three primary divisions based on their offerings and target demographics.

- Domestic programs: SSC
- International diploma programs: SSCI
- Language programs and summer camps: SSLC

The previous President, Patrick Dang, has been appointed the President of SSCI. VIC will undergo a name change to Sprott Shaw Language College shortly.

We are raising our FY2017 revenue forecast from $25.70 million to $27.36 million.

CIBT China – This division's revenues dropped 36% YoY to $0.48 million. However, management indicated that revenues actually grew slightly on a YoY basis, and the decline was a result of the change in accounting policies for is operations in China. CIBT has been phasing out its programs in China and its remaining focus is on lower tuition fee / mass market programs, such as career training programs related to business, hotel and tourism management, information technology, automotive training, English language training, etc. We are lowering our FY2017 revenue forecast from $2.27 million to $1.88 million.

We are revising our overall FY2017 revenue estimate from $42.48 million to $44.22 million, and our FY2018 estimate from $46.65 million to $47.51 million.

Gross margins improved to 67.1% because of the significant increase in revenues from development fees. The following table shows margins:

FRC Fundamental Research Corp.

Margins	Q1-2015	Q1-2016	Q1-2017
Gross	58.0%	61.8%	67.1%
EBITDA	-7.3%	9.1%	30.9%
EBIT	-10.6%	6.5%	29.4%
EBT	-9.4%	4.1%	25.5%
Net	-9.4%	4.1%	40.5%

General and administrative ("G&A") expenses increased by 2.3% YOY to $5.05 million.

EBITDA was $4.32 million in Q1-2017, versus $0.85 million in Q1-2016. As mentioned earlier, the company reported a $2.10 million gain in valuation of the student housing projects which further boosted the EPS. CIBT reported net income of $5.66 million (EPS: $0.08) in the quarter versus $0.39 million (EPS: $0.01) in Q1-2016.

We are slightly adjusting our FY2017 EPS estimate from $18.14 million / EPS: $0.27 to $18.44 million / EPS: $0.28, and our FY2018 estimate from $18.71 million / EPS: $0.28 to $18.94 million / EPS: $0.28.

Cash Flows

Free cash flows ("FCF") were -$26.88 million in Q1-2017, due to a net capital outlay of $33.81 million related to property investments.

Summary of Cash Flows (C$, mm)	Q1-2015	Q1-2016	Q1-2017
Operating	$1.33	-$0.15	$6.93
Investing	-$1.13	-$1.82	-$33.81
Financing	-$0.49	$0.38	$29.56
Effects of Exchange Rate	-$0.04	-$0.00	$0.05
Net	**-$0.32**	**-$1.59**	**$2.73**
Free Cash Flows to Firm (FCF)	**$0.21**	**-$1.97**	**-$26.88**

Balance Sheet

At the end of Q1-2017, the company had $7.22 million in cash. Working capital and the current ratio were -$5.04 million and 0.8x, respectively.

Liquidity & Capital Structure (C$)	2015A	2016A	Q1-2017
Cash	$2,514,195	$4,489,971	$7,221,851
Working Capital	-$31,466,726	-$3,994,904	-$5,041,426
Current Ratio	0.27	0.76	0.78
Debt/Capital	43.97%	35.58%	45.69%
EBIT Interest Coverage	(0.5)	(1.0)	8.8

Debt to capital was45.7%. The company has further reduced the number of shares outstanding through a normal course issuer bid. Over the past 51 months, the company has repurchased and cancelled 11.32 million shares, thereby reducing share dilution.

Stock Options and Warrants

The company currently has 0.35 million options (weighted average exercise price – $0.39), and 2.17 million warrants (weighted average exercise price – $0.30) outstanding. All the options and warrants are currently in the money. The company can raise up to $0.78 million if all these options and warrants are exercised.

Valuation and Rating

We have not made any noteworthy changes to our valuation of the company's existing Education Management and Student Housing divisions. For conservatism, we have added the expected gain in value (approximately $9.2 million) from the worst-case scenario of the recent KGIC deal, which resulted in an increase in our valuation on CIBT shares from $0.96 to $1.08 per share.

Valuation	Fair Value	Fair Value per Share
Education Management		
* Discounted Cash Flow @ 10%	$41,327,228	$0.56
* EV / Revenue @ 1.6x	$49,767,946	$0.67
Average	**$45,547,587**	**$0.62**
Student Housing (GEC)		
	$25,205,753	**$0.34**
KGIC Transaction (worst-case scenario)	**$9,200,000**	**$0.12**
Fair Value Estimate	**$79,953,340**	**$1.08**

We reiterate our BUY rating and raise our fair value estimate from $1.00 to $1.10 per share (risk rating of 3 - average).

Risks

The following risks may cause our estimates to differ from actual results (not exhaustive):

- Competition in the private education business in Canada is high.
- Real estate development and financing risks associated with GEC.
- The company's profitability is highly dependent on the health of the student housing real estate market in the Greater Vancouver area.
- Although the company has been able to pursue cheap acquisitions in the past, there is no guarantee they would be able to continue to do so going forward.
- Exchange rate risks exist, but are not significant as revenues from China account for less than 10% of the total revenues.

Appendix

CONSOLIDATED STATEMENTS OF OPERATIONS (in C$)	2013A	2014A	2015A	2016A	2017F	2018F
REVENUES						
Educational	29,085,965	27,590,311	27,248,686	27,629,310	29,238,979	30,663,388
Rental			647,046	4,959,459	7,500,000	10,800,000
Commissions + Referral Fees	667,669	843,022	619,077	1,036,372	1,067,463	1,099,487
Design and advertising IRIX	993,927	860,989	1,082,119	775,266	798,524	822,480
Development fees		1,621,832	2,582,023	1,713,737	5,620,000	4,120,000
Total Revenues	**30,747,561**	**30,916,154**	**32,178,951**	**36,114,144**	**44,224,966**	**47,505,355**
DIRECT COSTS						
Educational	12,243,618	11,132,629	11,006,541	12,100,972	11,995,912	12,000,083
Commissions + Referral Fees	192,991	407,655	250,400	679,513	426,985	439,795
Rental		-	479,257	3,844,123	5,437,500	6,480,000
Design and advertising IRIX	253,278	174,759	309,689	161,204	199,631	205,620
Total Direct Costs	**12,689,887**	**12,174,629**	**12,045,887**	**16,785,812**	**18,060,028**	**19,125,498**
Gross Profit	**18,057,674**	**18,741,525**	**20,133,064**	**19,328,332**	**26,164,938**	**28,379,857**
EXPENSES						
Stock-based compensation	81,527	15,992	15,909	26,758	32,768	35,198
General and administrative	19,963,023	19,729,134	19,335,528	19,828,886	20,324,608	20,832,723
Business development costs		180,000	90,000			
Total Expenses	**20,044,550**	**19,925,126**	**19,441,437**	**19,855,644**	**20,357,376**	**20,867,921**
EBITDA	**(1,986,876)**	**(1,183,601)**	**691,627**	**(527,312)**	**5,807,563**	**7,511,935**
Amortization	1,163,981	1,101,531	979,534	870,376	1,028,521	973,815
EBIT	**(3,150,857)**	**(2,285,132)**	**(287,907)**	**(1,397,688)**	**4,779,041**	**6,538,121**
Interest / Finance Cost	(106,839)	(118,438)	(556,106)	(1,394,171)	(1,984,110)	(3,116,415)
Interest Income	38,743	135,445	38,972	645,861		
Foreign exchange (loss) gain	97,914	98,720	227,728	39,345		
Loss on disposal of property, plant and equipment	142	(52,007)	(65,332)	(8,363)	-	-
EBT	**(3,120,897)**	**(2,221,412)**	**(642,645)**	**(2,115,016)**	**2,794,931**	**3,421,706**
Loss of investment in associates			(9,360)	(820,662)		
Gain on Change of Property Fair Value			7,615,175	9,779,146	16,205,709	16,205,709
Gain on sale of discontinued operations	319,540	7,030,395	-	3,827,120	-	-
Net Profit (Loss) before tax	**(2,801,357)**	**4,808,983**	**6,963,170**	**10,670,588**	**19,000,641**	**19,627,415**
Taxes	(1,216,267)	(503,978)	962,396	1,455,174	565,000	684,341
Net Profit (Loss)	**(1,585,090)**	**5,312,961**	**6,000,774**	**9,215,414**	**18,435,641**	**18,943,074**
EPS	-0.02	0.08	0.09	0.13	0.25	0.26
Non-controlling interests	(244,957)	(153,471)	(4,960,754)	(5,309,450)	(13,684,325)	(14,314,762)
Net Profit (Loss) to CIBT shareholders	**-1,830,047**	**5,159,490**	**1,040,020**	**3,905,964**	**4,751,316**	**4,628,312**
EPS	-0.03	0.08	0.02	0.06	0.07	0.06

CONSOLIDATED BALANCE SHEETS (in C$)	2013A	2014A	2015A	2016A	2017F	2018F
ASSETS						
CURRENT						
Cash and short-term investments	3,746,406	5,022,012	2,514,195	4,489,971	8,258,067	12,062,413
Accounts receivable	6,636,480	7,323,999	7,975,499	6,795,474	12,589,341	13,523,156
Prepaids and other	642,694	640,935	714,763	695,716	968,876	1,040,742
Inventory	378,020	389,758	441,150	363,293	363,293	363,293
Total Current Assets	**11,403,600**	**13,376,704**	**11,645,607**	**12,344,454**	**22,179,576**	**26,989,604**
Due from Related Parties	52,500	835,000	735,000	2,329,947	2,329,947	2,329,947
Property and Equipment	2,794,473	2,478,150	2,518,789	2,103,147	2,070,340	2,088,958
Intangible Assets	9,097,072	8,521,598	8,472,376	8,182,067	7,667,806	7,180,899
Goodwill	4,793,303	4,793,303	4,793,303	5,721,907	5,721,907	5,721,907
Future Income Tax	2,654,283	2,582,442	2,115,926	2,091,845	2,091,845	2,091,845
Deferred Cur. Dev. Costs & Other Assets	33,518	53,483	10,306	1,522,116	1,522,116	1,522,116
Investment property			38,100,000	49,900,000	141,975,709	390,301,419
Refundable deposits + Investment		8,307,320	11,615,440	18,151,058	18,151,058	18,151,058
Assets held for Sale/Cash held in trust	11,709,872	748,200	660,010		-	-
Total Assets	**42,538,621**	**41,696,200**	**80,666,757**	**102,346,541**	**203,710,305**	**456,377,753**
LIABILITIES						
CURRENT						
Accounts payable and accrued liabilities	3,462,507	3,819,796	4,726,161	3,000,520	5,870,972	6,217,336
Deferred revenue	11,179,121	9,831,156	10,319,570	11,548,744	16,485,490	17,708,302
Lease obligation + provision	258,332	195,959	208,094	164,795	164,795	164,795
Income Tax Payable	153,564	155,491	176,259	114,836	114,836	114,836
Current portion of the long-term debt	2,931,495	450,000	23,675,080	493,638		-
Due to related parties	224,898	2,704,356	4,007,169	1,016,825	1,016,825	1,016,825
Total Current Liabilities	**18,209,917**	**17,156,758**	**43,112,333**	**16,339,358**	**23,652,918**	**25,222,094**
Lease Obligation	480,483	508,764	457,416	324,009	159,214	159,214
Long-term Debt		-	-	28,344,426	89,040,426	274,736,426
Liabilities held for Sale	8,070,697					
Future Income Tax Liabilities	1,062,690	479,918	972,246	2,399,401	2,399,401	2,399,401
SHAREHOLDERS EQUITY						
Share capital	48,182,766	48,836,693	49,115,490	49,024,991	49,024,991	49,024,991
Contributed surplus	5,917,043	5,214,064	5,884,084	5,669,832	5,702,600	5,737,798
Accumulated Comprehensive loss	111,923	158,247	381,698	237,890	237,890	237,890
Non-controlling interests	1,209,395	5,156,637	15,518,351	30,875,531	59,610,447	120,349,209
Deficit	(40,706,293)	(35,814,881)	(34,774,861)	(30,868,897)	(26,117,581)	(21,489,270)
Total shareholders' equity (deficiency)	**14,714,834**	**23,550,760**	**36,124,762**	**54,939,347**	**88,458,346**	**153,860,618**
Total Liabilities and Shareholders Equity	**42,538,621**	**41,696,200**	**80,666,757**	**102,346,541**	**203,710,305**	**456,377,753**

FRC Fundamental Research Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in C$)	2013A	2014A	2015A	2016A	2017F	2018F
CASH FLOWS FROM OPERATING ACTIVITIES						
Net Profit (Loss) for the year	(1,585,090)	5,312,961	6,000,774	9,215,414	18,435,641	18,943,074
Adjusted for items not involving cash:						
- amortization	3,183,130	1,830,410	1,382,852	1,386,170	1,028,521	973,815
- stock-based compensation	81,527	15,992	15,909	26,758	32,768	35,198
- loss on disposal of property, plant and equipment	(142)	52,007	65,332	(3,818,757)	-	-
- (gain) loss on disposal of subsidiaries	-	(7,030,395)				
-gain from changes in ownership investment interests	-	-	9,360	883,279	-	-
-bad debt provision		100,000				
-impairment of marketable securities						
-development fees		(1,621,832)	(85,390)	(242,418)		
-gain on fair value changes in investment properties			(7,615,175)	(9,779,146)	(16,205,709)	(16,205,709)
-finance fees			418,818	550,664		
-future/current income tax provision	(1,208,172)	(510,931)	958,844	1,451,236		
Funds From Operations	**471,253**	**(1,851,788)**	**1,151,324**	**(326,800)**	**3,291,220**	**3,746,377**
Net changes in non-cash working capital items	(2,268,852)	(2,449,894)	2,096,587	441,927	1,740,171	563,495
NET CASH USED IN OPERATING ACTIVITIES	**(1,797,599)**	**(4,301,682)**	**3,247,911**	**115,127**	**5,031,392**	**4,309,872**
CASH FLOWS FROM INVESTING ACTIVITIES						
PP&E	(1,354,206)	(377,359)	(683,625)	(458,527)	(481,453)	(505,526)
Investment Properties			(289,042)	(925,265)		
Deposits on real estate properties		(1,950,000)	(2,800,000)	(6,725,000)		
Acquisitions	(1,407,350)	(411,718)	(29,777,937)	(1,956,845)	(75,870,000)	(232,120,000)
Disposal of business assets	2,421	6,356,931		2,134,710		
Promissory Note Receivables		3,612,639				
Restricted cash	66,513	(6,463)	(30,114)	79,563		
NET CASH USED IN INVESTING ACTIVITIES	**(2,692,622)**	**6,475,830**	**(33,580,718)**	**(7,851,364)**	**(76,351,453)**	**(232,625,526)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash from equity and debt issuances	-	485,752	1,137,952	84,413		
Acquisition of the Company's shares into treasury, net	(389,520)	(818,874)	(283,358)	(351,474)	-	-
Advances (to) from related parties	195,981	208,758	1,441,003	(2,848,753)		
Lease obligation repayments	(129,617)	(136,717)	(166,412)	(219,526)	(164,795)	
Non controlling interest capital contribution			6,033,200	10,374,000	15,050,591	46,424,000
Non-controlling interest draws	(358,799)	(236,654)	(485,100)	-	-	-
Loan principal payments	(1,652,737)	(2,481,495)	(450,000)	(14,585,142)		
Long-term debt advances	3,000,000		22,756,262	19,914,554	60,202,362	185,696,000
Funds from loan advances				(1,897,308)		
Deferred finance fees	(33,518)	(19,965)	43,177	(706,786)	-	-
NET CASH FROM FINANCING ACTIVITIES	**631,790**	**(2,999,195)**	**30,026,724**	**9,763,978**	**75,088,158**	**232,120,000**
Foreign Exchange / Others	(550,626)	(24,143)	(113,515)	27,198		
INCREASE IN CASH FOR THE YEAR	**(4,409,057)**	**(849,190)**	**(419,598)**	**2,054,939**	**3,768,096**	**3,804,346**
CASH, BEGINNING OF THE YEAR	7,964,476	3,555,419	2,706,229	2,286,631	4,489,971	8,258,067
CASH, END OF THE YEAR	**3,555,419**	**2,706,229**	**2,286,631**	**4,341,570**	**8,258,067**	**12,062,413**

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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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