

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

January 29, 2019

CIBT Education Group Inc. (TSX: MBA): Q1-FY2019 Revenues up 20% YoY

Sector/Industry: Education Services

www.cibt.net

Market Data (as of January 25, 2019)

Current Price	C\$0.69
Fair Value	C\$1.67
Rating*	BUY
Risk*	3
52 Week Range	C\$0.62- C\$0.85
Shares O/S	78,285,040
Market Cap	C\$54.02 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.08x
YoY Return	-10.4%
YoY TSX	-3.9%

*See back of report for rating and risk definitions



Highlights

- In Q1-FY2019 (quarter ended November 30, 2018), CIBT's revenues increased 20% YOY, to \$17 million. Educational revenues (up 8% YoY) beat our estimates slightly, while rental revenues (up 65% YoY) were in line.
- Rental revenues came from four projects - Viva Suites Hotel, Granville, Burnaby Heights, and Pearson.
- **After deducting non-controlling interests, CIBT reported net income of \$1.18 million (EPS: \$0.02), up 50% YoY.**
- At the end of Q1-FY2019, the company had \$19.30 million in cash. The debt to capital was at 40%.
- We estimate the total projected cost of projects (eight) completed / under development is \$925million. **Management's goal is to expand the portfolio to \$2 billion within the next five years.**
- On January 7, 2019, the company announced it has entered into agreements to purchase three properties (\$30.3 million) for a high-rise apartment building development, to be named GEC Oakridge, in Vancouver.
- Despite a significant slowdown in real estate sales, Vancouver's rental market remains extremely tight.

Key Financial Data

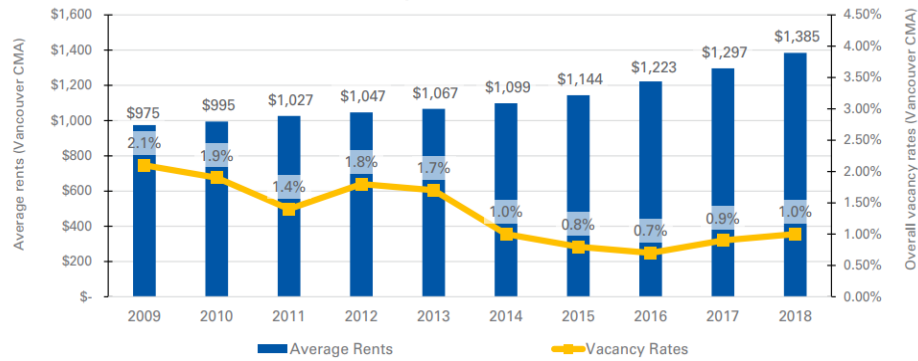
(in C\$); YE - Aug 31	2015	2016	2017	2018	2019E	2020E
Revenues	32,178,951	36,114,144	53,557,863	74,899,921	81,695,581	88,394,753
EBITDA	691,627	(527,312)	4,528,612	13,335,253	16,293,592	20,720,747
EBITDA Margin	2.1%	-1.5%	8.5%	17.8%	19.9%	23.4%
Net Income	6,000,774	9,215,414	8,284,034	45,371,165	38,786,039	40,285,085
EPS (Basic)	0.09	0.13	0.11	0.58	0.50	0.51
Debt to Capital	44.0%	35.2%	43.6%	40.2%	50.6%	54.9%
ROE	20.1%	17.5%	8.9%	50.5%	22.1%	18.7%

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

Update on the Vancouver RE Market

Despite a significant slowdown in real estate sales, the Vancouver Census Metropolitan Area's (CMA) rents continue to rise, and vacancy rates remain very low.

Greater Vancouver CMA average rents and vacancy rates
A 10-year picture (2009–2018)



Source: CMHC

Source: The Goodman Report

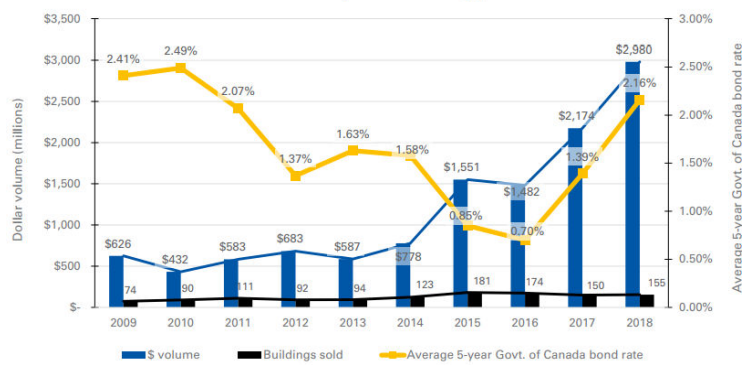
A reason for the slight increase in vacancy in 2018, is the significant increase in supply, as shown below.

City of Vancouver	Rental	All Housing	% Rental
2008	166	3,072	5%
2009	413	3,909	11%
2010	287	3,827	7%
2011	642	3,154	20%
2012	624	4,369	14%
2013	1,346	4,598	29%
2014	1,693	5,772	29%
2015	1,495	3,844	39%
2016	1,284	4,947	26%
2017	1,802	5,616	32%
2018 (Jan-Oct)	2,686	7,199	37%

Source: City of Vancouver / CMHC

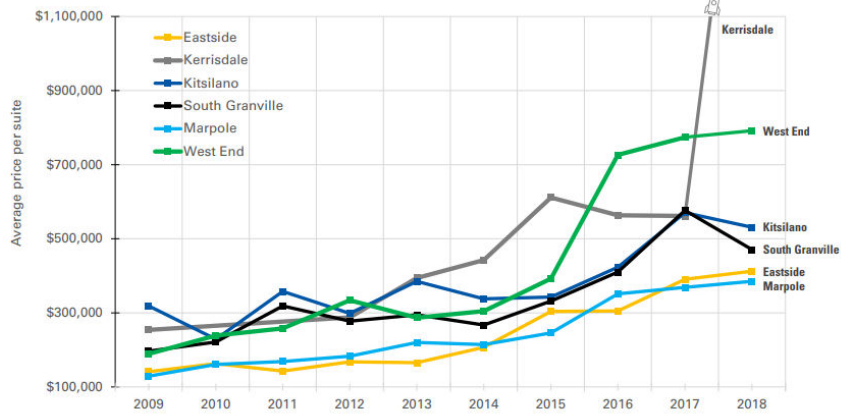
In 2018, 155 apartment buildings (up 3% YoY) were sold in the Greater Vancouver area for \$2.98 billion, up 37% YoY.

Greater Vancouver 10-year multi-family performance



Source: The Goodman Report

Vancouver neighbourhoods 2009–2018
Average price per suite



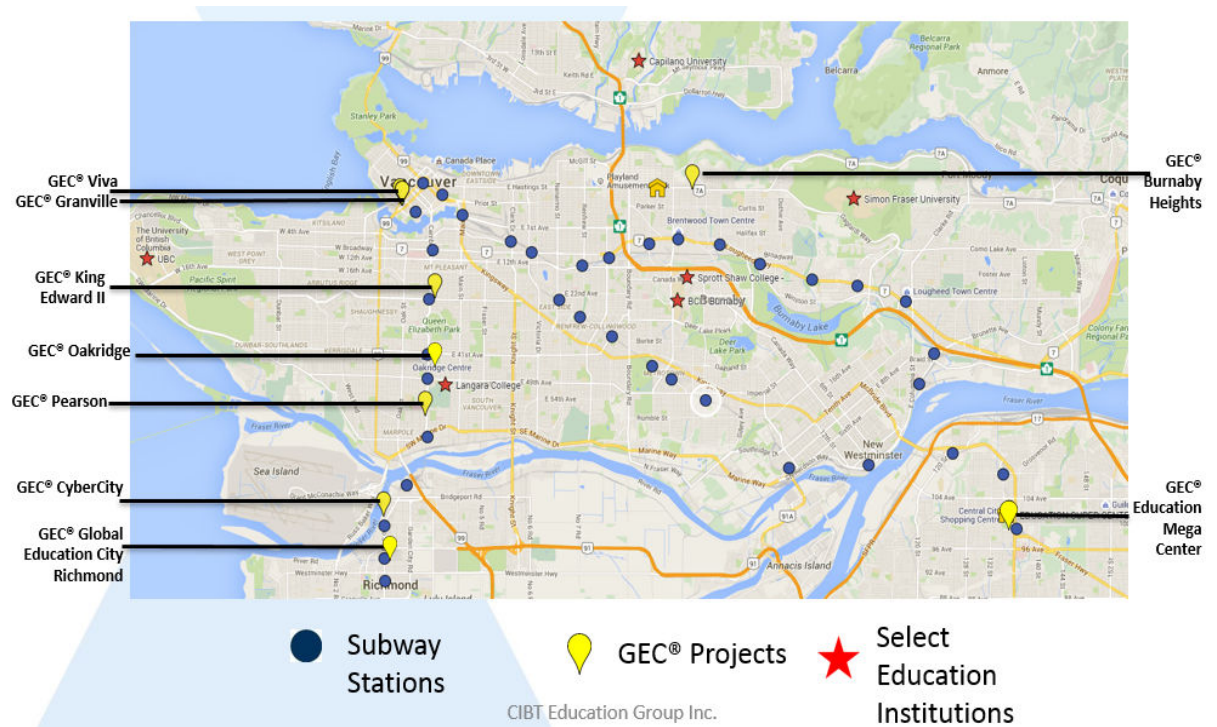
Source: Goodman Report

Source: The Goodman Report

Tighter lending policies, increasing lending rates, a large discrepancy between rental rates and housing prices, expected student growth, and a burgeoning technology sector, we believe, will continue to drive rental demand in Vancouver.

GEC's RE Portfolio

A map showing CIBT's projects is presented below.



CIBT Education Group Inc.

Source: Company

The table below shows an updated summary of the acquired projects and the projects under development. Note that a few of our estimates shown in the table below may not be in line with management’s estimates.

Project Summary

Project #	GEC Project 3	GEC Project 2	GEC Project 4 / 8	GEC Project 5	GEC Project 6	GEC Project 1	GEC Project 7	GEC Project 9	GEC Project 10	Total
	Viva	Pearson	Granville	Burnaby Heights	King Edward	Cyber City (Richmond)	Mega Center (Surrey)	Richmond	Oakridge	
Status	Operating	Stabilizing	Operating	Operating	Under Development	In Planning Stages (expected completion in 2023)	In Planning Stages (expected completion in 2023)	Construction commenced in Nov 2018 / sales centre commenced operations in Dec 2018	Construction expected to commence mid 2019 / waiting for development permit	
Projected Annual Rental Income (FRC Est.)	\$3,600,000	\$3,915,000	\$7,300,000	\$1,235,000	\$3,240,000	\$22,608,000	\$32,400,000	\$11,990,000	\$8,240,000	\$94,528,000
CIBT Ownership		38.5%	47.0%	25.0%	27.1%	23.0%	21.0%	20.0%	20.0%	
CIBT Management Fee	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Purchase Price/Project Costs		\$43,500,000	\$39,000,000	\$19,000,000	\$36,000,000	\$251,200,000	\$324,000,000	\$109,000,000	\$103,000,000	\$924,700,000
Beds	224	328	221	84	188	1000	1400	1100	430	4,975
NOI Estimate (FRC est.)	\$1,931,961	\$2,623,050	\$3,650,000	\$741,000	\$1,944,000	\$13,564,800	\$21,060,000	\$7,793,500	\$5,356,000	\$58,664,311
Cap Rate (assumption)		3.0%	5.0%	2.8%	3.50%	4.25%	4.25%	3.50%	4.25%	
Current Valuation (FRC est.)		\$87,435,000	\$65,920,000	\$26,400,000	\$55,542,857	\$319,171,765	\$495,529,412	\$222,671,429	\$126,023,529	\$1,398,693,992
Gain (FRC Est.)		\$43,935,000	\$26,920,000	\$7,400,000	\$19,542,857	\$67,971,765	\$171,529,412	\$113,671,429	\$23,023,529	\$473,993,992

*Ownership may change with project financing

* Our preliminary rental income estimates were based on approximately 10% of the cost price for each project.

Source: Company and FRC

Currently, 865 beds are in operation. We estimate the total projected cost of projects completed / under development is \$925 million. Management’s goal is to expand the portfolio to \$2 billion within the next five years. The following were the key developments since our previous report in December 2018:

- On January 7, 2019, the company announced it had entered into agreements to purchase three properties (\$30.3 million) for a high-rise apartment building (18 storey / 125,000 square feet / 430 beds), to be named GEC Oakridge, near the corner of Cambie Street, and West 42nd Avenue, in Vancouver. The properties are well connected, and are just a one minute walk to a train station. The total development cost is estimated at \$103 million. The project is subject to re-zoning and city approval. The closing of the purchase is expected to be in August 2019.

Revenues up 20% YoY in Q1

- Cancelled the planned purchase of two parcels of land for the GEC Langara project (220 bed / 63,000 sq ft high-rise apartment building).
- GEC Richmond received its Development Permit in November 2018, and began excavation and site preparation in December 2018. The original plan was a single office tower with two high rise residential rental towers. The developer will now convert one rental tower into condominiums for sale. In return, CIBT negotiated a revised cost of \$109 million (238,000 square feet at \$459 per square feet) for the remaining office tower and one residential rental tower. This is significantly lower than the \$825 per square feet estimate for GEC Oakridge mentioned above. The LP holding this project has raised a total of \$51 million in equity. CIBT has earned \$10 million in development fees, and expects an additional \$2 million in FY2019.

In Q1-FY2019, revenues increased 20% YOY, to \$17 million. The table below summarizes the company's key divisions and their revenues.

Revenues and Margins by Segment

	Q1-2016	Q1-2017	Q1-2018	Q1-2019	YOY
SSC + Others					
Revenues	6,314,245	6,878,681	10,862,820	11,718,035	7.9%
Gross Margins	57.52%	57.68%	53%	57%	
CIBT					
Revenues	744,882	480,288	637,523	746,839	17.1%
Gross Margins	46.25%	42.81%	55%	48%	
IRIX					
Revenues	224,823	215,882	377,054	279,446	-25.9%
Gross Margins	74.72%	86.15%	53%	78%	
Commissions + Referral Fees					
Revenues	295,607	276,124	305,156	174,927	-42.7%
Gross Margins	18.95%	43.47%	27%	39%	
Global Education City					
Revenues (rental)	341,787	1,664,615	2,021,317	3,328,226	64.7%
Gross Margins	40.74%	25.91%	26%	46%	
Global Education City					
Development fees	1,443,076	4,464,286		819,110	n/a
Overall Revenues	9,364,420	13,979,876	14,203,870	17,066,583	20.2%
Overall Gross Margins	61.8%	67.1%	48.9%	56.4%	

Source: Company Data

The revenue growth came from educational revenues, development fees, and rental revenues. **Educational revenues beat our estimates slightly, while rental revenues were in line.**

- **Educational revenues** were \$12.46 million, up 8%. We have raised our FY2019 estimate from \$52.4 million to \$52.9 million.
- **Rental revenues** were \$3.33 million, up 65% YoY. Revenues came from Viva Suites Hotel, Granville, Burnaby Heights, and Pearson. We are maintaining our

FY2019 revenue forecast at \$14.21 million.

- **Development fees** were \$0.82 million versus nil in Q1-FY2018. We are adjusting our FY2019 revenue forecast from \$14 million to \$12.6 million.

Based on the above, we are revising our FY2019 revenue estimate from \$82.64 million to \$81.70 million. We are also adjusting our FY2020 estimate from \$89.31 million to \$88.39 million.

Gross margins improved to 56.4% in Q1-FY2019, versus 48.9% in Q1-FY2018, due to strong improvements in margins of educational revenues (more in line with historical margins), rental revenues (with operations stabilizing) and development fees (which have a 100% margin). Q1-FY2016, and Q1-FY2017, gross margins were significantly higher as the development fees were significantly higher in those quarters. We are adjusting our gross margin estimate for FY2019 from 62% to 61%, due to lower expected revenues from development fees.

Margins				
	Q1-2016	Q1-2017	Q1-2018	Q1-2019
Gross	61.8%	67.1%	48.9%	56.4%
EBITDA	9.1%	30.9%	-3.8%	6.9%
EBIT	6.5%	29.4%	-6.4%	3.8%
EBT	4.1%	25.5%	-12.5%	-6.1%
Net	4.1%	40.5%	48.3%	12.8%
Net (normalized)	4.3%	27.6%	-9.9%	-5.3%

Source: Company Data

General and administrative (“G&A”) expenses increased by 13% YOY to \$8.41 million. Our FY2019 estimate is maintained at \$33.21 million.

EBITDA was \$1.18 million in Q1-FY2019, versus -\$0.53 million in Q1-FY2018. **EBITDA, including gain on property valuations, was \$4.28 million in Q1-FY2019, versus \$8.10 million in Q1-FY2018.** Note that the company’s reported figures are slightly different from our calculations.

The total **gain in the valuation of properties** was \$3.1 million in Q1-FY2019, versus \$8.63 million in Q1-FY2018. Since inception of the real estate business, the company has reported total gains of \$74.46 million. The table on page 4 shows our estimates of the expected increase in valuation of the assets. We estimate the company will report a total valuation gain of \$67 million over FY2019 and FY2020 (previously \$73 million).

CIBT reported net income of \$2.19 million in FY2018, versus \$6.86 million in Q1-FY2018. After deducting non-controlling interests, CIBT reported net income of \$1.18 million (EPS: \$0.02), up 50% YoY. **As a result of the above mentioned changes, we are adjusting our FY2019 net profit estimate from \$14.01 million / EPS: \$0.18 to \$12.29 million / EPS: \$0.16. Our FY2020 estimate has been adjusted from \$14.47 million /**

Cash Flows

EPS: \$0.18 to \$12.81 million / EPS: \$0.16. Note that these figures are net of non-controlling interests.

Free cash flows were -\$0.66 million in Q1-FY2019, versus -\$12.41 million in Q1-FY2018.

Summary of Cash Flows				
(C\$, mm)	Q1-2016	Q1-2017	Q1-2018	Q1-2019
Operating	-\$0.15	\$6.93	\$0.45	\$1.51
Investing	-\$1.82	-\$33.81	-\$12.86	-\$2.17
Financing	\$0.38	\$29.56	\$15.59	-\$13.29
Effects of Exchange Rate	-\$0.00	\$0.05	\$0.04	\$0.00
Net	-\$1.59	\$2.73	\$3.22	-\$13.94
Free Cash Flows to Firm (FCF)	-\$1.97	-\$26.88	-\$12.41	-\$0.66

Source: Company Data

Balance Sheet

At the end of Q1-FY2019, the company had \$19.30 million in cash (excluding restricted cash). Debt to capital was at 40%.

Liquidity & Capital Structure (C\$)	2017A	2018A	Q1-2019
Cash + Restricted Cash	\$7,129,892	\$33,495,798	\$19,552,192
Working Capital	-\$40,534,349	-\$18,624,069	-\$52,488,839
Current Ratio	0.32	0.75	0.41
Debt/Capital	43.61%	40.24%	39.58%
EBIT Interest Coverage	1.3	2.0	0.4

Source: Company Data

Working capital, and the current ratio, were -\$52 million, and 0.4x, respectively. The negative working capital was due to \$44 million in mortgages (classified as short-term as they are up for renewal), and \$26 million in deferred revenues.

Stock Options and Warrants

The company had 1.78 million options (weighted average exercise price – \$0.73), and 1.96 million warrants (weighted average exercise price – \$0.75) outstanding. Approximately 0.22 million options are currently in the money.

Valuation and Rating

Our revised fair value estimate is \$1.67 versus our previous estimate of \$1.71 per share. The following table summarizes our valuation.

	EV / Revenue	EV / EBITDA	P / B
CHC Student Housing	11.20		
American Campus Communities	10.70	21.60	1.70
Education Realty Trust (acquired)	13.10	28.40	1.60
Pure Multi-Family REIT LP	10.10	27.57	
Killam Apartment REIT	13.50	24.30	1.30
Morguard North American Residential	9.90	20.94	
Northview Apartment REIT	10.10		1.00
Average	11.23	24.56	1.40

	Projected Annual Revenues	Projected EBITDA	Projected Book Value
\$, millions	\$94.53	\$39.62	\$184.94
	(FRC est.)	(based on a peer average EBITDA margin of 42%)	20% of the est. cost of \$1.02B
Fair Value of 23.6% Equity (\$, millions)	\$75.77	\$54.95	\$60.99
Average (\$, millions)	\$63.90		

Valuation	Fair Value	Fair Value per Share
Education Management		
* Discounted Cash Flow @ 10%	\$62,129,735	\$0.79
* EV / Revenue @ 1.3x	\$71,354,895	\$0.91
Average	\$66,742,315	\$0.85
Student Housing (GEC)	\$63,903,149	\$0.82
Fair Value Estimate	\$130,645,464	\$1.67

Source: FRC / S&P Capital IQ

We reiterate our BUY rating, with a revised fair value estimate of \$1.67 per share.

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.

Risks

- Health of the rental market in Vancouver.
- 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 will be able to continue to do so going forward.

Appendix

INCOME STATEMENTS				
(in C\$)				
	2017A	2018A	2019F	2020F
REVENUES				
Educational	37,710,897	49,484,021	52,905,599	56,002,201
Rental	8,623,826	10,609,929	14,212,000	17,765,000
Commissions + Referral Fees	852,172	903,903	858,708	880,176
Design and advertising IRIX	998,824	1,096,658	1,124,074	1,152,176
Development fees	5,372,144	12,805,410	12,595,200	12,595,200
Total Revenues	53,557,863	74,899,921	81,695,581	88,394,753
DIRECT COSTS				
Educational	17,636,745	22,709,962	24,029,615	25,428,638
Commissions + Referral Fees	497,650	675,663	493,757	506,101
Rental	5,766,940	5,271,325	7,106,000	7,106,000
Design and advertising IRIX	240,809	249,835	281,019	288,044
Total Direct Costs	24,142,144	28,906,785	31,910,390	33,328,783
Gross Profit	29,415,719	45,993,136	49,785,191	55,065,970
EXPENSES				
Stock-based compensation	194,365	262,718	286,554	310,052
General and administrative	24,692,742	32,395,165	33,205,044	34,035,170
Website Development cost				
Business development costs/others				
Total Expenses	24,887,107	32,657,883	33,491,598	34,345,223
EBITDA	4,528,612	13,335,253	16,293,592	20,720,747
Amortization	1,190,329	1,811,415	3,586,748	3,540,679
EBIT	3,338,283	11,523,838	12,706,844	17,180,069
Interest / Finance Cost	(2,640,046)	(5,635,740)	(6,250,321)	(8,526,913)
Interest Income	1,781,861	2,070,874		
Foreign exchange (loss) gain	(40,288)	16,987		
Loss on disposal of property, plant and equipment	34,771	-	-	-
EBT	2,474,581	7,975,959	6,456,523	8,653,156
Loss of investment in associates	(1,268,036)	(669,951)		
Gain on Change of Property FV	10,470,322	43,497,343	33,362,560	33,362,560
Discontinued operations / others	(1,501,751)	1,550,489	-	-
Net Profit (Loss) before tax	10,175,116	52,353,840	39,819,083	42,015,716
Taxes	1,891,082	6,982,675	1,033,044	1,730,631
Net Profit (Loss)	8,284,034	45,371,165	38,786,039	40,285,085
EPS	0.11	0.58	0.50	0.51
Non-controlling interests	(5,896,938)	(25,428,909)	(26,493,250)	(27,475,505)
Net Profit (Loss) to CIBT	2,387,096	19,942,256	12,292,789	12,809,580
EPS	0.03	0.25	0.16	0.16

CONSOLIDATED BALANCE SHEETS				
(in C\$)				
	2017A	2018A	2019F	2020F
ASSETS				
CURRENT				
Cash and short-term investments	7,129,892	33,495,798	29,991,129	32,080,376
Accounts receivable	9,271,204	18,327,693	19,379,957	25,162,975
Prepays and other	1,285,875	1,729,965	1,789,778	1,936,542
Others	930,149	862,746	862,746	862,746
Inventory	584,392	751,742	751,742	751,742
Total Current Assets	19,201,512	55,167,944	52,775,352	60,794,381
Due from Related Parties	2,776,320	204,126	204,126	204,126
Property and Equipment	4,142,299	62,277,524	63,149,502	64,177,783
Intangible Assets	13,178,800	9,457,443	7,664,069	5,893,730
Goodwill	7,056,274	10,356,253	10,356,253	10,356,253
Future Income Tax	2,046,307	3,867,389	3,867,389	3,867,389
Deferred Cur. Dev. Costs & Other Assets	1,854,124	-	-	-
Investment property	101,010,000	144,670,000	335,472,560	526,275,121
Refundable deposits + Investment	15,416,361	54,835,953	54,835,953	54,835,953
Assets held for Sale/Cash held in trust	-	-	-	-
Total Assets	166,681,997	340,836,632	528,325,204	726,404,736
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	7,454,305	16,596,566	10,373,461	10,834,554
Deferred revenue	18,452,047	23,572,827	27,069,510	32,950,411
Lease obligation + provision	193,933	-	-	-
Income Tax Payable	273,212	5,069,250	5,069,250	5,069,250
Current portion of the long-term debt	33,362,364	28,553,370	28,553,370	28,553,370
Total Current Liabilities	59,735,861	73,792,013	71,065,592	77,407,585
Lease Obligation	-	-	-	-
Long-term Debt	26,047,512	87,051,236	213,003,236	338,955,236
Future Income Tax Liabilities	4,085,456	8,341,202	8,341,202	8,341,202
SHAREHOLDERS EQUITY				
Share capital	52,190,322	52,039,965	52,039,965	52,039,965
Contributed surplus	5,741,510	5,692,765	5,979,319	6,289,372
Accumulated Comprehensive loss	243,766	248,034	248,034	248,034
Non-controlling interests	47,280,963	122,210,962	173,894,612	226,560,517
Deficit	(28,643,393)	(8,539,545)	3,753,244	16,562,824
Total shareholders' equity (deficiency)	76,813,168	171,652,181	235,915,175	301,700,712
Total Liabilities and Shareholders Equity	166,681,997	340,836,632	528,325,204	726,404,736

CONSOLIDATED STATEMENTS OF CASH FLOWS				
(in CS)				
	2017A	2018A	2019F	2020F
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Profit (Loss) for the year	8,284,034	45,371,165	38,786,039	40,285,085
Adjusted for items not involving cash:				
- amortization	1,944,159	3,377,604	3,586,748	3,540,679
- stock-based compensation	194,365	262,718	286,554	310,052
- loss on disposal of property, plant and equipment	(144,133)	(2,295,672)	-	-
-gain from changes in ownership investment interests	1,268,036	669,951	-	-
-gain on fair value changes in investment properties	(10,470,322)	(43,497,343)	(33,362,560)	(33,362,560)
-finance fees	766,267	1,039,765		
-future/current income tax provision/others	2,046,497	1,539,127		
Funds From Operations	3,888,903	6,467,315	9,296,782	10,773,255
Net changes in non-cash working capital items	7,108,759	13,401,605	(3,838,498)	412,212
Discontinued Operations				
NET CASH USED IN OPERATING ACTIVITIES	10,997,662	19,868,920	5,458,284	11,185,467
CASH FLOWS FROM INVESTING ACTIVITIES				
PP&E	(1,782,241)	(2,538,431)	(2,665,353)	(2,798,620)
Investment Properties	(35,148,261)	8,967,827		
Deposits on real estate properties	(500,000)	(52,000,000)		
Acquisitions	(8,297,361)	(15,834,974)	(157,440,000)	(157,440,000)
Disposal of business assets	(169,892)			
Restricted cash	(101,507)	(42)		
NET CASH USED IN INVESTING ACTIVITIES	(45,999,262)	(61,405,620)	(160,105,353)	(160,238,620)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash from equity and debt issuances	5,096,956	374,048		
Acquisition of the Company's shares into treasury, net	(661,512)	(689,148)	-	-
Advances (to) from related parties	(2,855,956)	(11,797,050)		
Lease obligation repayments	(137,259)			
Non controlling interest capital contribution	10,510,050	49,349,137	25,190,400	25,190,400
Loan principal payments	(899,738)			
Long-term debt advances	29,476,661	33,978,413	125,952,000	125,952,000
Funds from loan advances	(2,478,747)			
Deferred finance fees	(521,927)	(3,314,231)	-	-
NET CASH FROM FINANCING ACTIVITIES	37,528,528	67,901,169	151,142,400	151,142,400
Foreign Exchange / Others	11,486	1,395		
INCREASE IN CASH FOR THE YEAR	2,538,414	26,365,864	(3,504,669)	2,089,247
CASH, BEGINNING OF THE YEAR	4,341,970	6,880,384	33,495,798	29,991,129
CASH, END OF THE YEAR	6,880,384	33,246,248	29,991,129	32,080,376

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.

Disclaimers and Disclosure

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any “forward looking statements” are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. “FRC” do not own any shares of the subject company, do not make a market or offer shares for sale of the subject company, and do not have any investment banking business with the subject company. Fees were paid by MBA to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, MBA has agreed to a minimum coverage term including four updates. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time.

The distribution of FRC’s ratings are as follows: BUY (72%), HOLD (7%), SELL / SUSPEND (21%).

To subscribe for real-time access to research, visit <http://www.researchfrc.com/subscription.htm> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock’s performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company’s products/services in the marketplace; acceptance in the marketplace of the Company’s new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company’s periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE’S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.