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Fundamental Research Corp.
*Investment Analysis for Intelligent Investors*

July 26, 2018

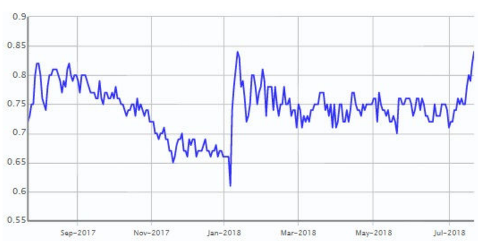
# CIBT Education Group Inc. (TSX: MBA) – Agreement to Sell Viva for a Significant Return on Investment

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

**Market Data (as of July 26, 2018)**

| | |
|---|---|
| **Current Price** | **C$0.82** |
| **Fair Value** | **C$1.63** |
| **Rating*** | **BUY** |
| **Risk*** | **3** |
| 52 Week Range | C$0.58 - C$0.87 |
| Shares O/S | 78,878,540 |
| Market Cap | C$64.68 mm |
| Current Yield | N/A |
| P/E (forward) | N/A |
| P/B | 1.5x |
| YoY Return | 9.3% |
| YoY TSX | 8.5% |

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




## Highlights

- In May 2018, CIBT's Limited Partnership ("LP") entered into an agreement to sell its ownership in the Viva property for $55.5 million, which we estimate reflects a gain of 292% for equity investors (over a period of 41 months). The property will continue to operate under the GEC® brand, as CIBT will lease the building from the purchaser for five years.
- Approximately $50 million in equity has been raised for the recently launched GEC Richmond. This $230 million project, covering 412,000 sq. ft., is likely to include an office tower and two residential towers.
- Management expects to receive an occupancy permit on GEC Pearson this month, and fully lease out the property (310 beds) over the next six months.
- In Q3-FY2018, revenues increased 85% YOY, to $22.83 million, but were slightly lower than our forecasts. Nine-month revenues were up 49% YoY to $54.70 million.
- Vancouver's rental market remains extremely tight. We believe the Bank of Canada ("BoC") decision, earlier this month, to raise the overnight lending rate will continue to increase demand for rentals.
- **<u>We are raising our fair value estimate from $1.51 to $1.63 per share.</u>**

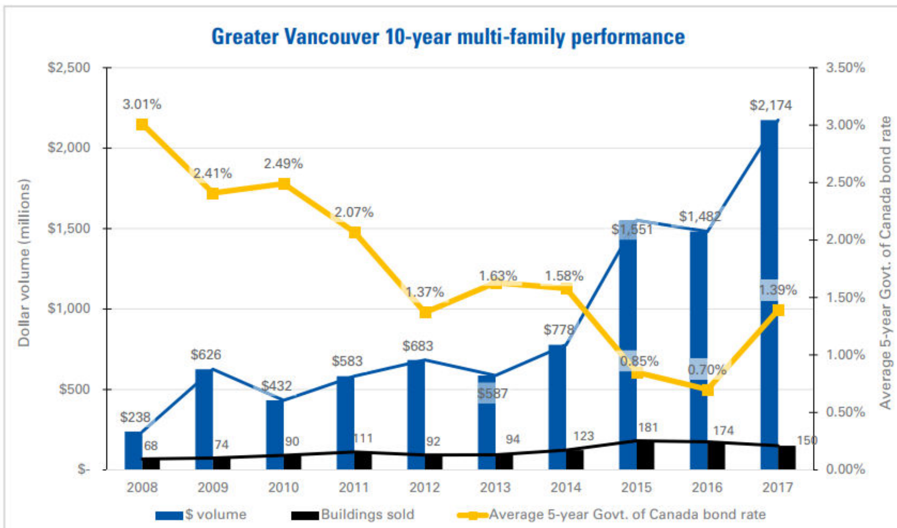
| Key Financial Data (in C$); YE - Aug 31 | 2015 | 2016 | 2017 | 2018E | 2019E |
|---|---|---|---|---|---|
| Revenues | 32,178,951 | 36,114,144 | 53,622,229 | 78,047,185 | 87,537,283 |
| EBITDA | 691,627 | (527,312) | 4,576,382 | 16,323,477 | 24,183,254 |
| EBITDA Margin | 2.1% | -1.5% | 8.5% | 20.9% | 27.6% |
| Net Income | 6,000,774 | 9,215,414 | 8,122,442 | 50,637,636 | 51,734,982 |
| EPS (Basic) | 0.09 | 0.13 | 0.11 | 0.64 | 0.66 |
| Debt to Capital | 44.0% | 35.2% | 43.8% | 45.4% | 48.4% |
| ROE | 20.1% | 17.5% | 8.3% | 44.7% | 37.0% |

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

***Update on the Vancouver RE Market***

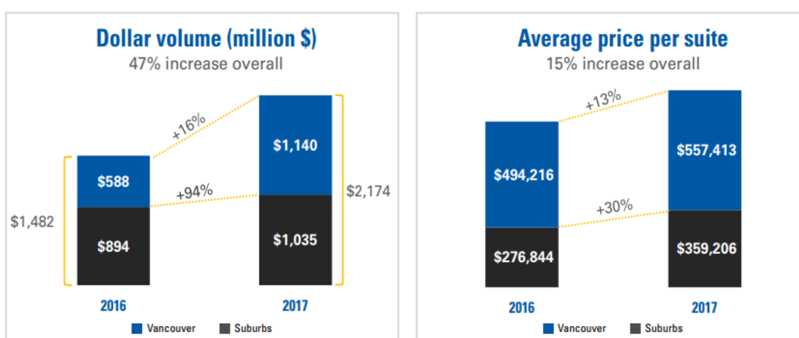
Despite the recent slowdown in real estate sales, Vancouver's rental market remains extremely tight with rental rates at historical highs, and vacancy remaining low. According to the CMHC, the vacancy rate in Metro Vancouver for bachelor suites (CIBT's primary target market) is just 0.7%. According to a recent Goodman Report, 17,229 units are currently under construction/development/planning in Metro Vancouver. These units will take at least five years to be completed, and will not be sufficient to meet demand as Vancouver's annual population is growing by 30,000 - 35,000. The total number of apartment units in the City of Vancouver has only increased by 0.6% p.a. from 2010 to 2017.

Multi-family properties in the Greater Vancouver area experienced record high transactions in 2017, as shown in the table below.




Source: Goodman Report

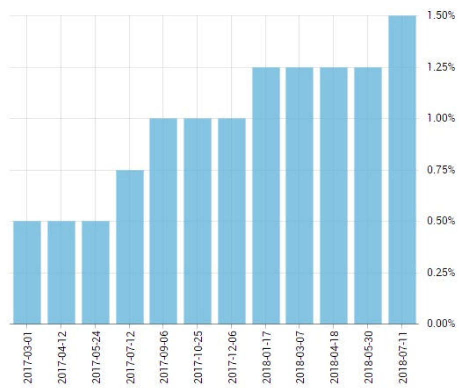
Although the number of buildings sold dropped YoY (174 to 150) in 2017, the total number of units increased by 28% (3,933 to 5,029). **The total dollar volume of transactions increased 47% to $2.17 billion.**




Source: Goodman Report

We expect the record high home prices and rising mortgage rates to continue to increase demand for rentals. The Bank of Canada ("BoC") has raised the **overnight lending rate four times** over the past 12 months (July 2017, September 2017, January 2018, and July 2018).

**Canada - overnight lending rate**

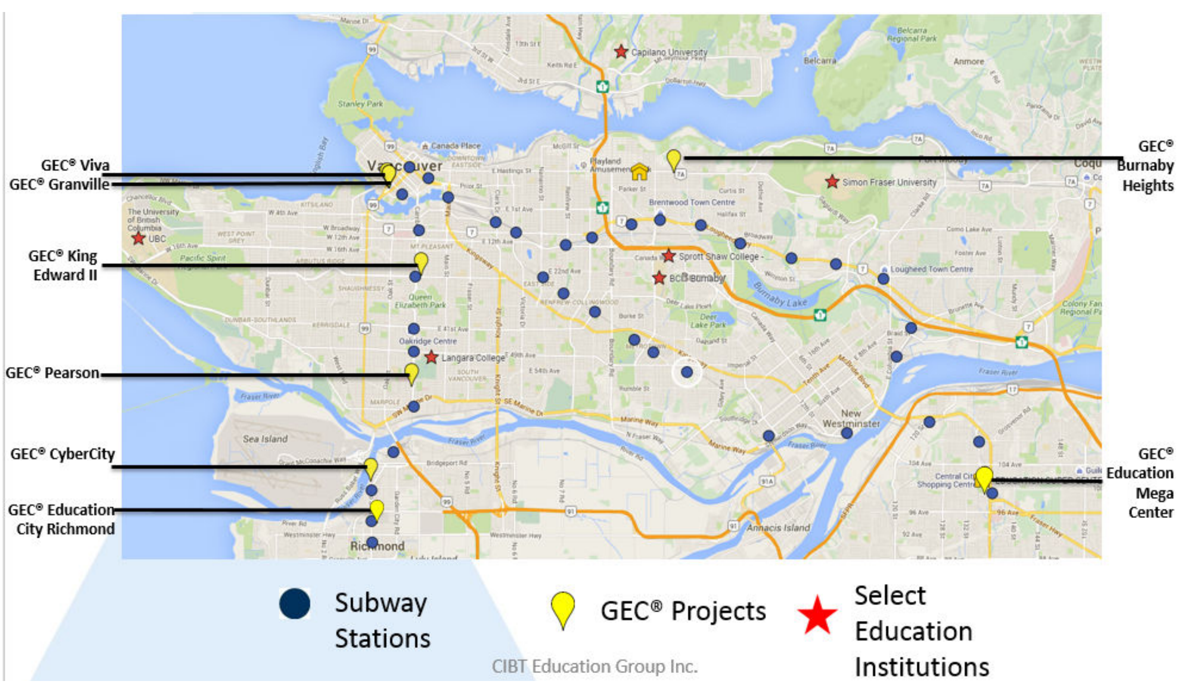



*Source: Bank of Canada*

**We continue to believe the market conditions remain highly conducive for CIBT's real estate business.**

*GEC's RE Portfolio*

A map showing CIBT's eight projects are presented below.




*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**

| | Viva | Burnaby Heights | King Edward | Pearson | Granville | Cyber City (Richmond) | Mega Center (Surrey) | Richmond | Total |
|---|---|---|---|---|---|---|---|---|---|
| Projected Annual Rental Income (FRC Est.) | $3,600,000 | $1,900,000 | $3,339,000 | $4,350,000 | $6,400,000 | $20,096,000 | $26,500,000 | $23,960,000 | **$90,145,000** |
| CIBT Ownership | 20.0% | 25.0% | 23.0% | 38.5% | 46.7% | 27.1% | 20.0% | 20.0% | |
| CIBT Management Fee | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | |
| Purchase Price/Project Costs | $36,000,000 | $19,000,000 | $47,700,000 | $43,500,000 | $39,000,000 | $251,200,000 | $265,000,000 | $239,600,000 | **$941,000,000** |
| Beds | 224 | 84 | 188 | 310 | 221 | 1000 | 1400 | 1100 | **4,527** |
| Status | Operating | Operating | Under Development | Operational shortly | Operating | In Planning Stages (expected completion in 2022) | In Planning Stages (expected completion in 2022) | construction starts Nov 2018 | |
| NOI Estimate (FRC est.) | $1,931,961 | $887,373 | $2,003,400 | $2,610,000 | $3,200,000 | $12,057,600 | $17,225,000 | $15,574,000 | **$55,489,334** |
| Cap Rate (assumption) | 3.5% | 3.4% | 3.50% | 3.4% | 5.0% | 4.25% | 4.25% | 4.25% | |
| Current Valuation (FRC est.) | $55,500,000 | $26,400,000 | $57,240,000 | $77,649,421 | $65,920,000 | $283,708,235 | $405,294,118 | $366,447,059 | **$1,338,158,833** |
| Gain (FRC Est.) | $19,500,000 | $7,400,000 | $9,540,000 | $34,149,421 | $26,920,000 | $32,508,235 | $140,294,118 | $126,847,059 | **$397,158,833** |

*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*

The following were the key developments since our previous report in May 2018:

- Viva – In May 2018, CIBT's LP entered into an agreement to sell its ownership in the property. The sale is expected to be completed in early August. The cost-base is estimated at $38 million ($6 million in equity plus $32 million in debt), and the sale price is estimated at $55.5 million, implying a profit of approximately $17.5 million. We estimate the sale price reflects a cap rate of 3.5% to 4.0%, which is in line with the market average. The limited partners invested $6 million, which we estimate implies a return of 292% over a period of 41 months. CIBT will receive approximately $3.5 million of the $17.5 million profit, for its 20% interest. The property will continue to operate under the GEC® brand, as CIBT will lease the building from the purchaser for five years. Leasing fees were not disclosed.
- The company had launched GEC Richmond in March 2018 (eighth GEC location).

According to the Purchase and Development Agreement with a Vancouver developer, CIBT's LP is required to pay deposits totaling $65 million by December 2018, of which, $50 million has been paid to date. This $230 million project, covering 412,000 sq. ft., is likely to include an office tower and two residential towers. Management expects to raise an additional $20 million in equity by the end of this year. CIBT will receive a 20% equity interest in the project in return for approximately $14 million in development fees.

- As the new project in Richmond will be developed as GEC ® Richmond, management is considering renaming the project, on previously purchased land in Richmond, from GEC ® Education Super Center to Cyber City.
- Mega Center (Surrey) - rezoning approval is expected by Q4-FY2018. Construction is expected to start in early 2019, and completion is expected in 2022.
- Pearson – Management expects to receive the occupancy permit this month, and fully lease out the property over the next six months. A mortgage has been approved for approximately $37.40 million.
- Sale of four commercial ground floor units at GEC Burnaby Heights for $6 million, with expected closing by the end of this month.

**Overall, approximately 840 beds will be in operation once Pearson is operational.**

***Revenues up 85% YOY in Q3***

In Q3-FY2018, revenues increased 85% YOY to $22.83 million, but were slightly lower than our forecasts. Nine-month revenues were up 49% YoY to $54.70 million. The table below summarizes the company's key divisions and their revenues.

**Revenues and Margins by Segment**

| | Q3-2017 | Q3-2018 | YOY | 2017 (9 mo) | 2018 (9 mo) | YOY |
|---|---|---|---|---|---|---|
| **SSC + Others** | | | | | | |
| Revenues | 9,460,281 | 11,148,491 | *17.85%* | 23,284,313 | 33,169,300 | *42.45%* |
| Gross Margins | 54.27% | 56.59% | | 57.02% | 57.02% | |
| **CIBT** | | | | | | |
| Revenues | 438,473 | 469,310 | *7.03%* | 1,428,081 | 1,791,567 | *25.45%* |
| Gross Margins | 52.86% | 35.68% | | 49.31% | 49.31% | |
| **IRIX** | | | | | | |
| Revenues | 259,976 | 289,378 | *11.31%* | 724,986 | 839,779 | *15.83%* |
| Gross Margins | 72.59% | 80.27% | | 73.77% | 73.77% | |
| **Commissions + Referral Fees** | | | | | | |
| Revenues | 121,913 | 199,921 | *63.99%* | 541,788 | 679,826 | *25.48%* |
| Gross Margins | 39.06% | 27.18% | | 34.64% | 34.64% | |
| **Global Education City** | | | | | | |
| Revenues (rental) | 2,079,935 | 2,708,045 | *30.20%* | 5,258,568 | 6,552,381 | *24.60%* |
| Gross Margins | 33.45% | 58.61% | | 27.55% | 27.55% | |
| **Global Education City** | | | | | | |
| Development fees | | 8,019,562 | *n/a* | 5,595,239 | 11,662,382 | *108.43%* |
| **Overall Revenues** | **12,360,578** | **22,834,707** | *84.74%* | **36,832,975** | **54,695,235** | *48.50%* |
| Overall Gross Margins | 51.0% | 71.7% | | 59.0% | 62.3% | |

*Source: Company Data*

The revenue growth came primarily from development fees, rental revenues, and educational revenues.

- **Educational revenues (excluding China)** were $11.15 million, up 18%, but were lower than our estimate. We have revised our FY2018 revenue forecast from $48.5 million to $46.5 million.

- The company reported **rental revenues** of $2.71 million, up 30% YoY. Revenues came from Viva Suites Hotel, Granville, and Burnaby Heights. We were expecting GEC Pearson to be operational in Q3, but are still expecting a significant increase in rental revenues as Pearson becomes operational. Our FY2018 revenue forecast has been adjusted from $12.22 million to $10.38 million.

- The company reported **development fees** of $8.02 million in the quarter versus nil in Q3-2017. We are adjusting our forecast for FY2018 from $18.93 million to $16.93 million.

**Based on the above, we are revising our FY2018 revenue estimate from $84 million to $78 million. We are also adjusting our FY2019 estimate from $90 million to $88 million. Note that we have raised our net profit forecasts as discussed later in this report.**

Gross margins beat our estimates and were 72% in Q3-2018, versus 51% in Q3-2017. Margins increased due to the high development fees this quarter, which have a 100% margin. We are raising our gross margins estimate for FY2018 from 61% to 62%.

**Margins**

| | Q2-2017 | Q2-2018 | 2017 (6M) | 2018 (6M) |
|---|---|---|---|---|
| Gross | 57.9% | 61.1% | 63.1% | 55.6% |
| EBITDA | 4.0% | 17.6% | 19.4% | 8.1% |
| EBIT | 1.7% | 15.1% | 17.5% | 5.3% |
| EBT | -2.6% | 10.0% | 13.4% | -0.2% |
| Net | 17.9% | 10.0% | 13.4% | -0.2% |
| | Q3-2017 | Q3-2018 | 2017 (9 mo) | 2018 (9 mo) |
| Gross | 50.95% | 71.68% | 59.0% | 62.3% |
| EBITDA | -3.0% | 36.1% | 11.9% | 19.8% |
| EBIT | -5.4% | 34.0% | 9.8% | 17.5% |
| EBT | -7.8% | 26.3% | 6.3% | 11.1% |
| Net | -11.4% | 34.9% | 16.6% | 30.4% |
| Net (normalized) | -7.8% | 26.3% | 6.3% | 11.1% |

*Source: Company Data*

General and administrative ("G&A") expenses increased by 21% YOY to $8.05 million, and were slightly higher than our expectations. Our FY2018 estimate has been adjusted from $30 million to $32 million.

EBITDA was $8.24 million in Q3-FY2018, versus -$0.38 million in Q3-FY2017. **EBITDA, including the gain on property valuations and asset sales, we estimate, was $10.26 million in Q3-FY2018.** Note that the company's reported figures are slightly different from our calculations. For the nine-month period, EBITDA (including gain in property value) was $21.47 million in FY2018, versus $8.50 million in FY2017

The total **gain in the valuation of properties** was $nil million in Q3-FY2018, versus $1.49 million in Q2-FY2017. Since the inception of the real estate business, the company has reported total gains of $36.50 million. The table on page 4 shows our estimates of the expected increase in valuations of the assets. We estimate the company will report a total valuation gain of $62 million over FY2018 and FY2019.

CIBT reported net income of $7.96 million in Q3-FY2018, versus -$1.41 million in Q3-FY2017. After deducting non-controlling interests, CIBT reported net income of $8.50 million (EPS: $0.11) in Q3-FY2018, versus -$2.27 million (EPS: -$0.03) in Q3-FY2017. For the nine-month period, the company reported $11.77 million (EPS: $0.15) in FY2018 versus $3.03 million (EPS: $0.14) in FY2017, after deducting non-controlling interests.

**After making all the above mentioned changes, and an expected $17.5 million gain from the sale of Viva, we are adjusting our FY2018 estimate from $16.92 million / EPS: $0.21 to $17.09 million / EPS: $0.22. We are also adjusting our FY2019 estimate from $17.35 million / EPS: $0.22 to $21.37 million / EPS: $0.27. Note that these figures are net of non-controlling interests.**

***Cash Flows***

Free cash flows were -$59.24 million in the first nine months of FY2018, versus -$28.10 million in the comparable period in FY2017.

| **Summary of Cash Flows** | | | |
|---|---|---|---|
| **(C$, mm)** | **2016 (9M)** | **2017 (9M)** | **2018 (9M)** |
| Operating | $1.44 | $8.78 | $19.51 |
| Investing | -$6.01 | -$44.38 | -$78.75 |
| Financing | $4.66 | $38.00 | $62.83 |
| Effects of Exchange Rate | $0.03 | $0.07 | $0.10 |
| **Net** | **$0.12** | **$2.47** | **$3.68** |
| | | | |
| **Free Cash Flows to Firm (FCF)** | **-$3.56** | **-$28.10** | **-$59.24** |

*Source: Company Data*

***Balance Sheet***

At the end of Q3-FY2018, the company had $10.57 million in cash (excluding restricted cash shown). Debt to capital was at 44%.

| Liquidity & Capital Structure (C$) | 2016A | 2017A | Q3-2018 |
|---|---|---|---|
| Cash + Restricted Cash | $4,489,971 | $7,129,892 | $10,815,855 |
| Working Capital | -$3,994,904 | -$40,534,349 | -$73,722,708 |
| Current Ratio | 0.76 | 0.32 | 0.26 |
| Debt/Capital | 35.21% | 43.78% | 43.98% |
| EBIT Interest Coverage | (1.0) | 1.2 | 4.1 |

*Source: Company Data*

Working capital and the current ratio were -$73.72 million and 0.3x, respectively. The negative working capital was due to $60.35 million in mortgages, and $23.21 million in deferred revenues.

***Stock Options and Warrants***

The company had 1.87 million options (weighted average exercise price – $0.72), and 2 million warrants (weighted average exercise price – $0.75) outstanding. 1.77 million options and all warrants are currently in the money. The company can raise up to $2.75 million if these options and warrants are exercised.

***Valuation and Rating***

We are raising our fair value estimate to $1.51 from $1.63 per share, as our valuation of the student housing division increased. The following table summarizes our valuation.

| | Ticker | EV / Revenue | EV / EBITDA | P / B |
|---|---|---|---|---|
| American Campus Communities | NYSE: ACC | 10.10 | 20.30 | 1.50 |
| Education Realty Trust | NYSE: EDR | 12.90 | 28.20 | 1.70 |
| **Average** | | **11.50** | **24.25** | **1.60** |

| | Projected Annual Revenues | Projected EBITDA | Projected Book Value |
|---|---|---|---|
| $, millions | $90.15 | $37.73 | $188.20 |
| | (FRC est.) | (based on a peer average EBITDA margin of 42%) | 20% of the est. budget of $940M |
| Fair Value of 24% Equity ($, millions) | $68.44 | $39.09 | $72.60 |
| **Average ($, millions)** | **$60.04** | | |

| Valuation | Fair Value | Fair Value per Share |
|---|---|---|
| **Education Management** | | |
| * Discounted Cash Flow @ 10% | $61,616,691 | $0.78 |
| * EV / Revenue @ 1.5x | $76,107,027 | $0.96 |
| **Average** | **$68,861,859** | **$0.87** |
| **Student Housing (GEC)** | | |
| | **$60,040,896** | **$0.76** |
| **Fair Value Estimate** | **$128,902,755** | **$1.63** |

*Source: FRC / S&P Capital IQ*

***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.
- 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 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 total revenues.

# Appendix

| INCOME STATEMENTS (in C$) | 2016A | 2017A | 2018F | 2019F |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Educational | 27,629,310 | 37,775,263 | 48,655,648 | 52,139,728 |
| Rental | 4,959,459 | 8,623,826 | 10,384,167 | 14,212,000 |
| Commissions + Referral Fees | 1,036,372 | 852,172 | 958,694 | 958,694 |
| Design and advertising IRIX | 775,266 | 998,824 | 1,123,677 | 1,179,861 |
| Development fees | 1,713,737 | 5,372,144 | 16,925,000 | 19,047,000 |
| **Total Revenues** | **36,114,144** | **53,622,229** | **78,047,185** | **87,537,283** |
| **DIRECT COSTS** | | | | |
| Educational | 12,100,972 | 17,653,341 | 21,091,424 | 22,434,539 |
| Commissions + Referral Fees | 679,513 | 497,650 | 623,151 | 551,249 |
| Rental | 3,844,123 | 5,766,940 | 7,580,442 | 7,106,000 |
| Design and advertising IRIX | 161,204 | 240,809 | 292,156 | 294,965 |
| **Total Direct Costs** | **16,785,812** | **24,158,740** | **29,587,172** | **30,386,753** |
| **Gross Profit** | **19,328,332** | **29,463,489** | **48,460,013** | **57,150,529** |
| **EXPENSES** | | | | |
| Stock-based compensation | 26,758 | 194,365 | 282,898 | 317,297 |
| General and administrative | 19,828,886 | 24,692,742 | 31,853,637 | 32,649,978 |
| Business development costs/others | | | | |
| **Total Expenses** | **19,855,644** | **24,887,107** | **32,136,536** | **32,967,275** |
| **EBITDA** | **(527,312)** | **4,576,382** | **16,323,477** | **24,183,254** |
| Amortization | 870,376 | 1,290,329 | 1,732,110 | 1,746,034 |
| **EBIT** | **(1,397,688)** | **3,286,053** | **14,591,367** | **22,437,220** |
| Interest / Finance Cost | (1,394,171) | (2,640,046) | (4,214,168) | (4,423,712) |
| Interest Income | 645,861 | 1,781,861 | | |
| Foreign exchange (loss) gain | 39,345 | (40,288) | | |
| Loss on disposal of property, plant and equipment | (8,363) | 34,771 | - | - |
| **EBT** | **(2,115,016)** | **2,422,351** | **10,377,199** | **18,013,508** |
| Loss of investment in associates | (820,662) | (1,268,036) | | |
| Gain on Change of Property FV | 9,779,146 | 10,470,322 | 25,204,242 | 36,603,636 |
| Discontinued operations / others | 3,827,120 | (1,611,113) | 17,500,000 | - |
| **Net Profit (Loss) before tax** | **10,670,588** | **10,013,524** | **53,081,441** | **54,617,143** |
| Taxes | 1,455,174 | 1,891,082 | 2,443,805 | 2,882,161 |
| **Net Profit (Loss)** | **9,215,414** | **8,122,442** | **50,637,636** | **51,734,982** |
| EPS | 0.13 | 0.11 | 0.64 | 0.66 |
| Non-controlling interests | (5,309,450) | (5,896,938) | (33,551,005) | (30,363,324) |
| **Net Profit (Loss) to CIBT** | **3,905,964** | **2,225,504** | **17,086,631** | **21,371,658** |
| EPS | 0.06 | 0.03 | 0.22 | 0.27 |

| CONSOLIDATED BALANCE SHEETS (in C$) | 2016A | 2017A | 2018F | 2019F |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT** | | | | |
| Cash and short-term investments | 4,489,971 | 7,129,892 | 30,116,918 | 42,347,947 |
| Cash in escrow / trust | | | | |
| Accounts receivable | 6,795,474 | 9,271,204 | 18,514,479 | 20,765,735 |
| Prepaids and other | 695,716 | 1,285,875 | 1,709,849 | 1,917,757 |
| Others | - | 930,149 | 930,149 | 930,149 |
| Inventory | 363,293 | 584,392 | 584,392 | 584,392 |
| **Total Current Assets** | **12,344,454** | **19,201,512** | **51,855,787** | **66,545,980** |
| Due from Related Parties | 2,329,947 | 2,776,320 | 151,517 | 151,517 |
| Property and Equipment | 2,103,147 | 4,142,299 | 5,147,597 | 6,239,501 |
| Intangible Assets | 8,182,067 | 13,178,800 | 12,312,745 | 11,439,728 |
| Goodwill | 5,721,907 | 7,056,274 | 7,056,274 | 7,056,274 |
| Future Income Tax | 2,091,845 | 2,046,307 | 2,046,307 | 2,046,307 |
| Deferred Cur. Dev. Costs & Other Assets | 1,522,116 | 1,854,124 | 1,854,124 | 1,854,124 |
| Investment property | 49,900,000 | 101,010,000 | 205,739,242 | 340,942,877 |
| Refundable deposits + Investment | 18,151,058 | 15,416,361 | 15,416,361 | 15,416,361 |
| Assets held for Sale/Cash held in trust | | - | - | - |
| **Total Assets** | **102,346,541** | **166,681,997** | **301,579,954** | **451,692,668** |
| **LIABILITIES** | | | | |
| **CURRENT** | | | | |
| Accounts payable and accrued liabilities | 3,000,520 | 6,451,858 | 9,618,227 | 9,878,156 |
| Deferred revenue | 11,548,744 | 18,452,047 | 25,860,628 | 29,005,135 |
| Lease obligation + provision | 164,795 | 193,933 | 193,933 | 193,933 |
| Income Tax Payable | 114,836 | 273,212 | 273,212 | 273,212 |
| Current portion of the long-term debt | 493,638 | 33,362,364 | 28,464,341 | 28,464,341 |
| Refundable deposits | | | | |
| Due to related parties | 1,016,825 | 1,002,447 | 1,002,447 | 1,002,447 |
| **Total Current Liabilities** | **16,339,358** | **59,735,861** | **65,412,789** | **68,817,224** |
| Lease Obligation | 324,009 | 584,579 | 584,579 | 584,579 |
| Long-term Debt | 28,344,426 | 25,462,933 | 89,082,933 | 167,962,933 |
| Liabilities held for Sale | | | | |
| Future Income Tax Liabilities | 2,399,401 | 4,085,456 | 4,085,456 | 4,085,456 |
| **SHAREHOLDERS EQUITY** | | | | |
| Share capital | 49,024,991 | 52,190,322 | 52,190,322 | 52,190,322 |
| Contributed surplus | 5,669,832 | 5,741,510 | 6,024,408 | 6,341,706 |
| Accumulated Comprehensive loss | 237,890 | 243,766 | 243,766 | 243,766 |
| Non-controlling interests | 30,875,531 | 47,280,963 | 95,512,463 | 141,651,786 |
| Deficit | (30,868,897) | (28,643,393) | (11,556,762) | 9,814,896 |
| **Total shareholders' equity (deficiency)** | **54,939,347** | **76,813,168** | **142,414,197** | **210,242,476** |
| **Total Liabilities and Shareholders Equity** | **102,346,541** | **166,681,997** | **301,579,954** | **451,692,668** |

| CONSOLIDATED STATEMENTS OF CASH FLOWS (in C$) | 2016A | 2017A | 2018F | 2019F |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Net Profit (Loss) for the year | 9,215,414 | 8,122,442 | 50,637,636 | 51,734,982 |
| Adjusted for items not involving cash: | | | | |
| - amortization | 1,386,170 | 2,044,159 | 1,732,110 | 1,746,034 |
| - stock-based compensation | 26,758 | 194,365 | 282,898 | 317,297 |
| - loss on disposal of property, plant and equipment | (3,818,757) | (34,771) | - | - |
| -gain from changes in ownership investment interests | 820,662 | 1,268,036 | - | - |
| -development fees | (242,418) | | | |
| -gain on fair value changes in investment properties | (9,779,146) | (10,470,322) | (25,204,242) | (36,603,636) |
| -finance fees | 550,664 | 766,267 | | |
| -future/current income tax provision/others | 761,211 | 2,046,497 | | |
| **Funds From Operations** | **(1,079,442)** | **3,936,673** | **27,448,403** | **17,194,678** |
| Net changes in non-cash working capital items | 441,927 | 7,060,989 | 907,702 | 945,271 |
| Discontinued Operations | | | | |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(637,515)** | **10,997,662** | **28,356,105** | **18,139,949** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| PP&E | (458,527) | (1,782,241) | (1,871,353) | (1,964,921) |
| Investment Properties | (925,265) | (35,148,261) | | |
| Deposits on real estate properties | (6,725,000) | (500,000) | | |
| Acquisitions | (1,956,845) | (8,297,361) | (79,525,000) | (98,600,000) |
| Disposal of business assets | 2,887,352 | (169,892) | | |
| Restricted cash | 79,563 | (101,507) | | |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(7,098,722)** | **(45,999,262)** | **(81,396,353)** | **(100,564,921)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Cash from equity and debt issuances | 84,413 | 5,096,956 | | |
| Acquisition of the Company's shares into treasury, net | (351,474) | (661,512) | - | - |
| Advances (to) from related parties | (2,848,753) | (2,855,956) | 2,624,803 | |
| Restricted cash and other deposits | - | - | - | - |
| Payment of acquisition payable | - | - | - | - |
| Lease obligation repayments | (219,526) | (137,259) | | |
| Shares issued to non-controlling interests in SEG equities | - | - | - | - |
| Non controlling interest capital contribution | 10,374,000 | 10,510,050 | 14,680,494 | 15,776,000 |
| Loan principal payments | (14,585,142) | (899,738) | | |
| Long-term debt advances | 19,914,554 | 29,476,661 | 58,721,977 | 78,880,000 |
| Funds from loan advances | (1,897,308) | (2,478,747) | | |
| Deferred finance fees | (706,786) | (521,927) | - | - |
| **NET CASH FROM FINANCING ACTIVITIES** | **9,763,978** | **37,528,528** | **76,027,274** | **94,656,000** |
| Foreign Exchange / Others | 27,198 | 11,486 | | |
| **INCREASE IN CASH FOR THE YEAR** | **2,054,939** | **2,538,414** | **22,987,026** | **12,231,028** |
| CASH, BEGINNING OF THE YEAR | 2,286,631 | 4,341,970 | 7,129,892 | 30,116,918 |
| **CASH, END OF THE YEAR** | **4,341,570** | **6,880,384** | **30,116,918** | **42,347,947** |

**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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