

**CIBT Education Group Inc. (TSX: MBA)**

**Educational and Rental Revenues Continuing to Grow Organically**

**BUY**

**Current Price: C\$0.56**

**Fair Value: C\$1.39**

**Implied Upside: 148%**

**Risk: 3**

**Sector / Industry: Education Services / Student Housing**

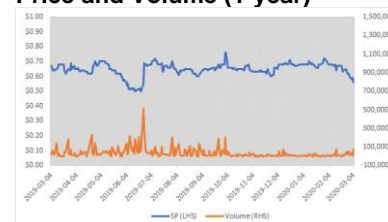
[Click here for more research on the company and to share your views](#)

**Highlights**

- The Vancouver residential market is showing signs of stabilization, which will likely further strengthen the city's rental market, boosting our outlook on CIBT's student housing projects.
- In Q1-FY2020 (quarter ended November 2019), CIBT reported \$17 million in revenue, up 0.2% YoY.
- Revenue was lower than our estimate, but the company **continued to report organic growth in both its key segments** – Educational (2.2% YoY) and Rental (10.7% YoY).
- Gross margin increased YoY from 56.4% to 58.1% in Q1-FY2020, and beat our expectations, due to a strong increase in gross margins of rental revenues (46% to 60%).
- EBITDA was \$3 million in Q1-FY2020, up 179% YoY. A 55% YoY increase in interest expense impacted the bottom line. After deducting non-controlling interest, CIBT reported a net loss of \$0.04 million (EPS: -\$0.00), versus net profit of \$1.18 million (EPS: \$0.02) in Q1-FY2019.
- **We are raising our FY2020 net profit estimate from \$5 million / EPS: \$0.06 to \$6 million / EPS: \$0.08.**
- On December 3, 2019, CIBT announced an agreement to sell one of its properties for \$70 million. **The sale is expected to be completed in May 2020, which will likely be the next major catalyst for the company's share price.**

**Sid Rajeev, B.Tech, MBA, CFA**  
Head of Research

**Price and Volume (1-year)**



	YTD	12m
Ret.	-17.6%	-16.4%
TSX	-2.3%	3.8%

**Company Data (as of March 4, 2020)**

52 Week Range	\$0.48 - \$0.76
Shares O/S	76,532,540
Market Cap.	\$42.86 million
Yield (forward)	N/A
P/E (forward)	7.0x
P/B	0.8x

Key Financial Data (in C\$); YE - Aug 31	2017	2018	2019	2020E	2021E
Revenues	53,557,863	74,899,921	70,997,000	74,763,015	79,837,615
EBITDA	4,528,612	13,335,253	5,993,000	13,638,890	15,660,171
EBITDA Margin	8.5%	17.8%	8.4%	18.2%	19.6%
Net Income	8,284,034	45,371,165	14,932,000	13,702,283	18,085,657
EPS (Basic)	0.11	0.58	0.20	0.18	0.24
Debt to Capital	43.6%	40.2%	42.6%	46.0%	48.0%
ROE	8.9%	50.5%	5.2%	11.2%	11.8% +

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

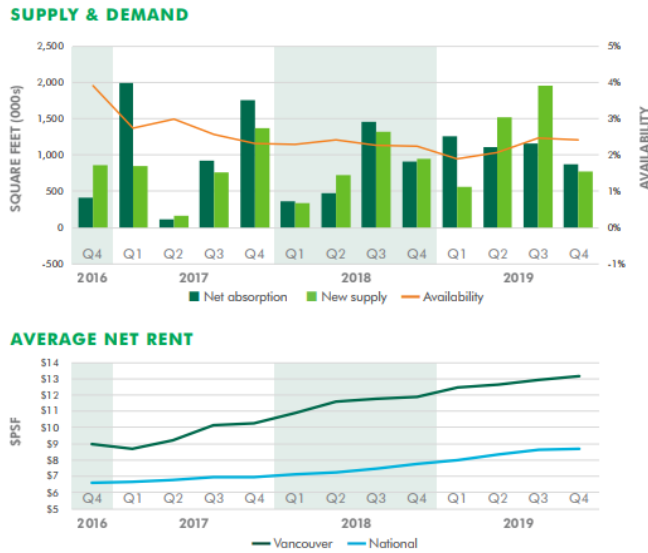
\*See last page of this report for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

Vancouver office market at record low vacancy rates

### Market Update

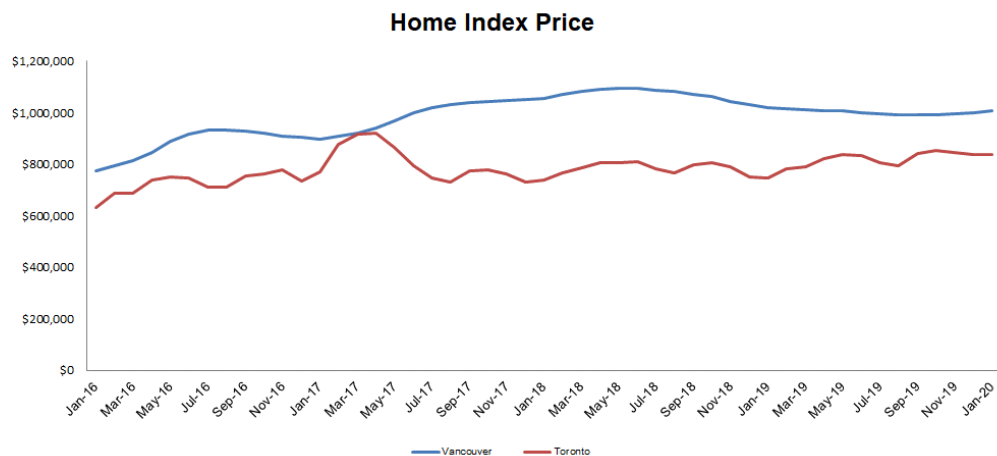
Vancouver's office market hit a record low vacancy rate of 3.7% in Q4-2019, with downtown rates at 2.3%. Although the average rent for the Greater Vancouver area dropped QoQ in Q4, rents in downtown were up 1% QoQ, and 21% YoY.

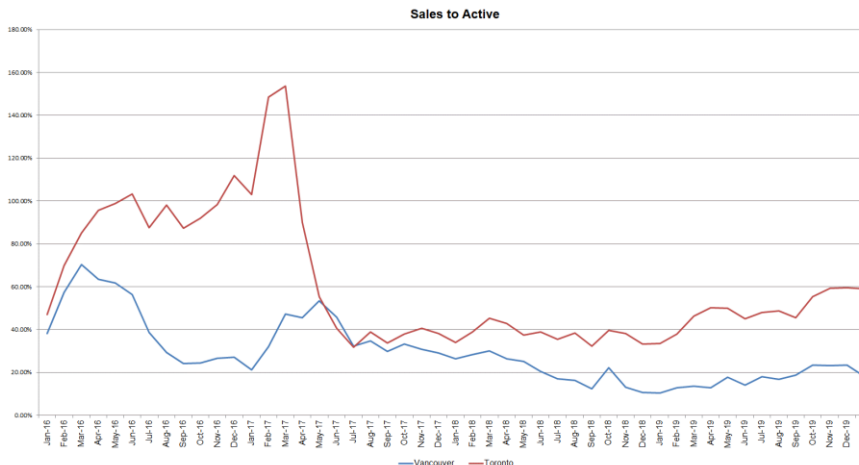
### Office Rent and Vacancy



With regard to **multi-family markets**, Vancouver continue to have one of the lowest residential vacancy rates (1.1%) and the highest rent in the country. The average rent (1-bedroom and 2-bedroom units) in Vancouver was \$2,595 per month in February 2020, up 0.8 % MoM (Source: PadMapper / FRC).

The following charts show average home prices and sales to active ratio.





Source: TREB and REBGV

*Housing market shows signs of stabilization*

Vancouver’s real estate sales, which declined every month on a YoY basis from February 2018 to June 2019, have been experiencing strong YoY growth since August 2019. **Sales were up 88% YoY in December 2019, and 42% YoY in January 2020.** The average price has been rising since September 2019, and as of January 2020, was up 1.8% from the lows in September 2019. The sales to active ratio was 18% in January 2020, versus 10% in January 2019.

Metro Vancouver	Sep-18	Sep-19	YoY	Oct-18	Oct-19	YoY	Nov-18	Nov-19	YoY	Dec-18	Dec-19	YoY
Residential Sales	1,595	2,333	46%	1,966	2,858	45%	1,608	2,498	55%	1,072	2,016	88%
New Listings	5,279	4,866	-8%	4,873	4,074	-16%	3,461	2,987	-14%	1,407	1,588	13%
Active Listings	13,084	12,439	-5%	12,984	12,236	-6%	12,307	10,770	-12%	10,275	8,603	-16%
Sales to Listings	12.19%	18.76%		15.14%	23.36%		13.07%	23.19%		10.43%	23.43%	
MLS Home Price Index	\$1,070,600	\$990,600	-7%	\$1,062,100	\$992,900	-7%	\$1,042,100	\$993,700	-4.64%	\$1,032,400	1,001,000	-3%

Metro Vancouver	Jan-19	Jan-20	YoY
Residential Sales	1,103	1,571	42%
New Listings	4,848	3,872	-20%
Active Listings	10,808	8,617	-20%
Sales to Listings	10.21%	18.23%	
MLS Home Price Index	\$1,019,600	\$1,008,700	-1%

Source: REBGV

Recently, the Canadian government announced its decision to revise the benchmark rate used in mortgage stress tests from the five-year posted rate by banks, to a median five-year fixed insured-mortgage rate in mortgage insurance applications, plus 2%. **At current rates, the new benchmark is 0.3% lower, implying that the revised rule will qualify a higher number of borrowers, and potentially increase home sales.**

*Outlook on the rental market remains strong*

Overall, with the Vancouver housing market showing signs of stabilization, we expect the rental market in CIBT’s target areas will remain strong.

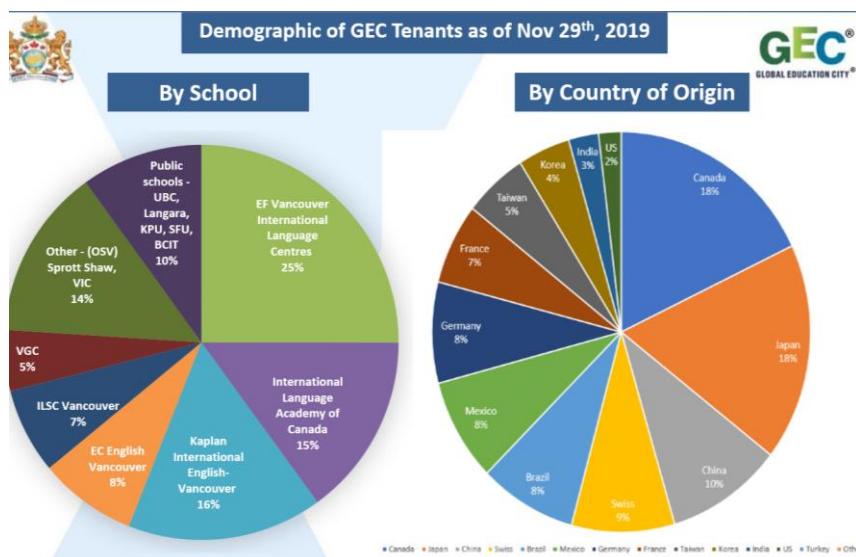
### Update on CIBT’s Housing Projects

The company has not announced any material developments since our previous update report in December 2019. The following are a few of the upcoming catalysts:

- In December 2019, the company had signed an agreement to sell one of its properties for \$70 million. Similar to the previous transaction with Viva, CIBT will also enter into a master lease agreement with the purchaser to continue operating the property under the GEC brand. **The sale is expected to be completed in May 2020.** The company did not disclose which of the three operating properties that its Limited Partnerships owns (Pearson, Granville or Burnaby Heights) is up for sale.
- Completion of land acquisition for GEC Oakridge.
- Rezoning process of GEC Education Mega Center and GEC CyberCity to be completed in FY2020.
- Construction of GEC Richmond is progressing as per schedule.
- Construction of GEC King Edward is now expected to start in H1-2020, versus management’s previous timeline of February 2020.

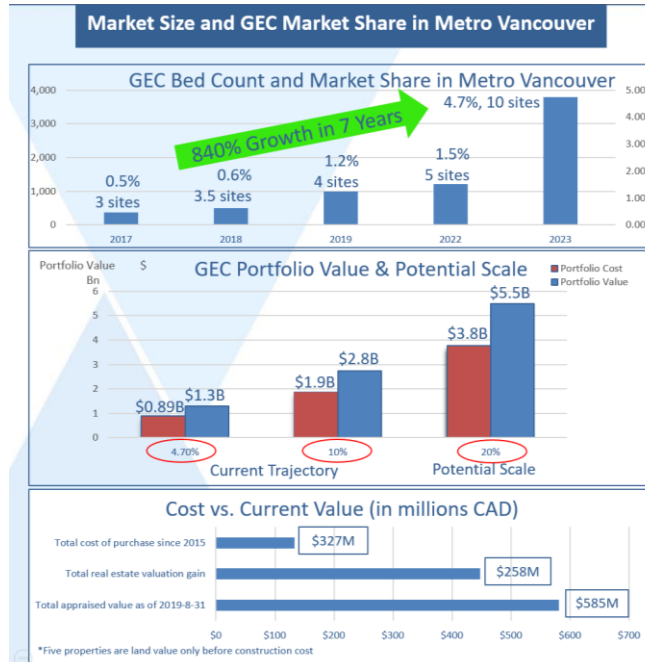
In a recent presentation, we noted the following key data provided by management.

1. **Well diversified tenant base** by school and by country of origin.



Source: Company

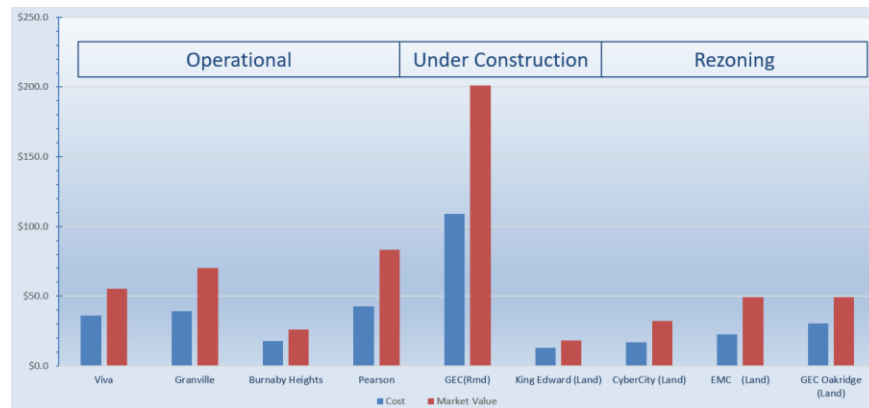
2. Management estimates that it will have **10 operating sites by 2023**, accounting for approximately 4.7% of the international student population in Metro Vancouver.



Source: Company

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

**Project Summary**

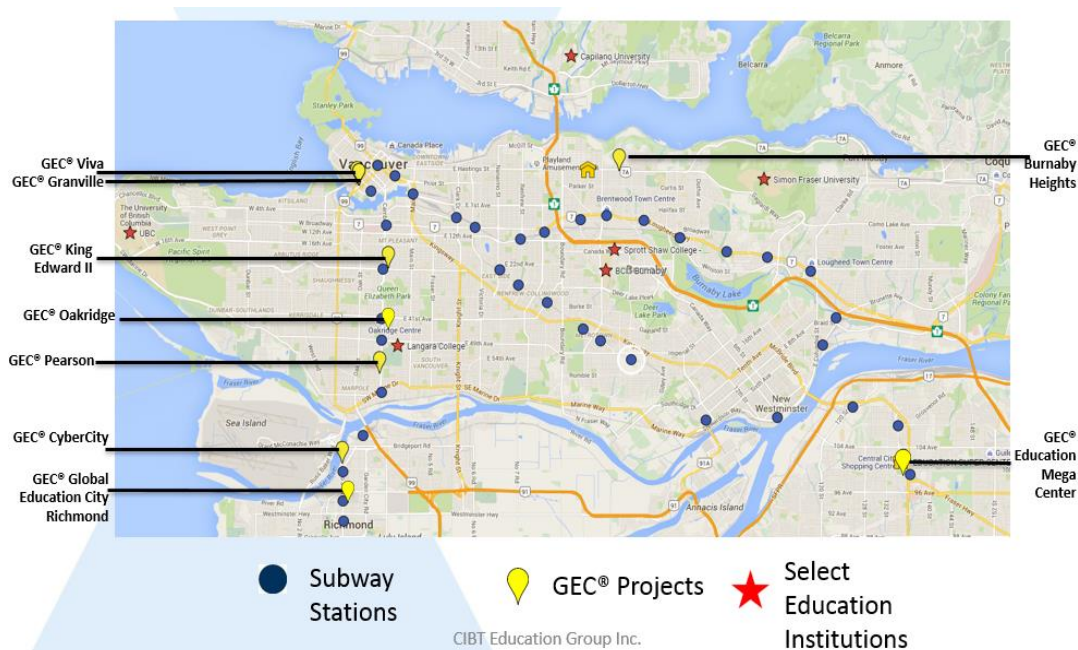


	Viva	Pearson	Granville	Burnaby Heights	King Edward	Cyber City	Mega Center (Surrey)	Richmond	Oakridge	Total
Status	Operating (Stablized)	Operating (Stablized)	Operating (Stablized)	Operating (Stablized)	Rezoning (Estimated to start operating in 2022)	Rezoning (DP submitted in Dec 2019; estimated to start operating in 2023/2024)	Rezoning (took over land title in Aug 2019; expected to start operating in 2023/2024)	Rezoning (DP approved in Nov 2018; BP approved in 2019; expected to start operating in 2022)	Rezoning (Expecting DP approval in November 2021; Construction timeline: 3 years)	
Projected Annual Rental Income (FRC Est.)	\$3,500,000	\$4,400,000	\$8,000,000	\$1,000,000	\$3,200,000	\$14,640,000	\$22,400,000	\$8,720,000	\$8,320,000	\$74,180,000
CIBT Ownership		38.5%	46.7%	25.0%	23.0%	27.0%	21.0%	27.5%	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	\$40,000,000	\$183,000,000	\$280,000,000	\$109,000,000	\$104,000,000	\$817,500,000
Beds	223	341	222	97	193	204	800	466	475	3,021
NOI Estimate (FRC est.)	\$1,560,000	\$3,300,000	\$4,500,000	\$700,000	\$1,920,000	\$8,784,000	\$13,440,000	\$5,232,000	\$4,992,000	\$44,428,000
Cap Rate (assumption)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
Current Valuation (FRC est.)		\$82,500,000	\$112,500,000	\$17,500,000	\$48,000,000	\$219,600,000	\$336,000,000	\$130,800,000	\$124,800,000	\$1,071,700,000
Gain (FRC Est.)		\$39,000,000	\$73,500,000	-\$1,500,000	\$8,000,000	\$36,600,000	\$56,000,000	\$21,800,000	\$20,800,000	\$254,200,000

\*Ownership may change with project financing

\* Our preliminary rental income estimates were based on approximately 8% of the cost price for each project.

\*Management intends to pre-sale certain condos in Cyber City and Mega Center; we have not modeled for this as details remain undisclosed.



Currently, approximately 800 beds are in operation. We estimate the total

projected cost of projects completed / under development is approximately \$800 million.

## Financials

In Q1-FY2020, revenue increased 0.2% YOY, to \$17 million, but was below our expectations. The table below summarizes the company's key divisions and their revenues.

### Revenue and Margin by Segment

	Q1-2018	Q1-2019	Q1-2020	YOY
<b>SSC + Others</b>				
Revenues	10,862,820	11,718,035	11,976,000	2.2%
Gross Margins	53%	57%	57%	
<b>CIBT</b>				
Revenues	637,523	746,839	768,000	2.8%
Gross Margins	55%	48%	47%	
<b>IRIX</b>				
Revenues	377,054	279,446	225,000	-19.5%
Gross Margins	53%	78%	81%	
<b>Commissions + Referral Fees</b>				
Revenues	305,156	174,927	56,000	-68.0%
Gross Margins	27%	39%	94%	
<b>Global Education City</b>				
Revenues (rental)	2,021,317	3,328,226	3,683,000	10.7%
Gross Margins	26%	46%	60%	
<b>Global Education City</b>				
Development fees		819,110	400,000	-51.2%
<b>Overall Revenues</b>	<b>14,203,870</b>	<b>17,066,583</b>	<b>17,108,000</b>	<b>0.2%</b>
<b>Overall Gross Margins</b>	<b>48.9%</b>	<b>56.4%</b>	<b>58.1%</b>	

\*Q1 reflects quarter ended November 30<sup>th</sup>

Source: Company Data

The company reported growth in its two key segments – Educational and Rental. The growth was mostly offset by a decline in development fees, as shown in the table above.

- **Educational revenue was \$13 million, up 2.2% YoY from organic growth, but lower than our 5% YoY growth estimate. Our revised revenue forecast for FY2020 is \$54 million (previously \$55 million).**
- **Rental revenue was \$4 million, up 10.7% YoY, but lower than our estimate. Revenue came from four properties - Viva Tower, Granville Suites Hotel, Burnaby Heights, and Pearson. The full-capacity revenue potential of these four projects is \$17 million per year. We are adjusting our FY2020 revenue forecast from \$17 to \$13 million because revenue was lower than**

**expected and we expect near-term weakness from the coronavirus.**

We asked management on the potential impact of the coronavirus on business. Management indicated that the coronavirus has resulted in both positive and negative developments. Negative because the company is likely to attract fewer international students to their schools / housing projects. Positive because international students currently residing in Canada are cancelling their return trips to Asia this summer. Management is also noticing a higher number of inquiries to study in Canada, especially from parents eager to send their children to safer environments. Although we speculative the impact of the coronavirus will be a short-term event, we will be closely monitoring developments to evaluate its potential impact to CIBT and its operations.

- **Development fee was \$0.40 million, down 51.2% YoY.** As mentioned in our previous reports, we are not concerned with this drop as volatility in such fees is expected as its recognition depends on the timing of projects. These fees are non-cash, as CIBT uses these fees to acquire an equity interest in projects. Based on the current development schedule, we are adjusting our FY2020 forecast from \$9 million to \$7 million.

Revising revenue forecasts

**Based on the above, we are revising our FY2020 revenue estimate from \$82 million to \$75 million, and FY2021 estimate from \$84 million to \$80 million.**

Gross margin increased YoY from 56.4% to 58.1% in Q1-FY2020, due to a **strong increase in rental revenue's gross margin** (46% to 60%). We are adjusting our gross margin estimate for FY2020 from 59.1% to 59.6%.

**Margins**

	Q1-2017	Q1-2018	Q1-2019	Q1-2020
<b>Gross</b>	67.1%	48.9%	56.4%	58.1%
<b>EBITDA</b>	30.9%	-3.8%	6.9%	19.2%
<b>EBIT</b>	29.4%	-6.4%	3.8%	13.4%
<b>EBT</b>	25.5%	-12.5%	-6.1%	2.7%
<b>Net</b>	40.5%	48.3%	12.8%	1.2%

\*Q1 reflects quarter ended November 30<sup>th</sup>

Source: Company Data

The company reallocated some expense line items from G&A to interest expense. Since we do not have comparable YoY amounts, we reviewed the total amount and noticed a 8% YoY decline to \$9 million. **Our FY2020 estimate has been revised from \$42 million to \$40 million.**

EBITDA was \$3 million in Q1-FY2020, up 179% YoY. Note that the company's reported figures are slightly different from our calculations.

The company reported a -\$0.25 million loss (from the Viva Tower transaction) in the **valuation of properties in Q1-FY2020 versus \$3.1 million in Q1-FY2019.**



Since inception of the real estate business, the company has reported total gains of \$91 million. The table on page 6 shows our estimates of the expected increase in valuations of the assets. We estimate the company will report a total valuation gain of \$27 million over FY2020 and FY2021 (unchanged).

After deducting non-controlling interests, CIBT reported net loss of \$0.04 million (EPS: -\$0.00), versus net profit of \$1.18 million (EPS: \$0.02) in Q1-FY2019.

As we lowered our G&A / interest expense forecasts, we are **raising our FY2020 net profit estimate** from \$5 million / EPS: \$0.06 to \$6 million / EPS: \$0.08. Our FY2021 estimate has been revised from \$6 million / EPS: \$0.07 to \$7 million / EPS: \$0.10. Note that these figures are net of non-controlling interests.

As a result of the stronger EBITDA, free cash flows were \$1.06 million in Q1-FY2020 versus -\$0.66 million in Q1-FY2019.

Revising EPS estimates

Summary of Cash Flows				
(C\$, mm)	Q1-2017	Q1-2018	Q1-2019	Q1-2020
Operating	\$6.93	\$0.45	\$1.51	\$3.00
Investing	-\$33.81	-\$12.86	-\$2.17	-\$1.94
Financing	\$29.56	\$15.59	-\$13.29	\$0.93
Effects of Exchange Rate	\$0.05	\$0.04	\$0.00	\$0.03
Net	\$2.73	\$3.22	-\$13.94	\$2.01
<b>Free Cash Flows to Firm (FCF)</b>	<b>-\$26.88</b>	<b>-\$12.41</b>	<b>-\$0.66</b>	<b>\$1.06</b>

\*Q1 reflects quarter ended November 30<sup>th</sup>

Source: Company Data

At the end of Q1-FY2020, the company had \$17 million in cash. Debt to capital was at 43%. We estimate that the average debt to capital of the REITs presented later in this report is approximately 54%.

Liquidity & Capital Structure (C\$)	2017A	2018A	2019A	Q1-2020
Cash + Restricted Cash	\$7,129,892	\$33,495,798	\$15,462,000	\$17,473,000
Working Capital	-\$40,534,349	-\$18,624,069	-\$31,168,000	-\$62,827,000
Current Ratio	0.32	0.75	0.62	0.46
Debt/Capital	43.61%	40.24%	42.61%	43.48%
EBIT Interest Coverage	1.3	2.0	0.6	0.9

\*Q1 reflects quarter ended November 30<sup>th</sup>

Source: Company Data

Working capital was -\$63 million at the end of Q1-FY2020, versus -\$31 million at the end of FY2019, due to the reclassification of certain mortgages from long-term to short-term. These mortgages will either be renewed or refinanced.

The company has 2.41 million options (exercise price between \$0.37 and \$0.86

per share), and nil warrants outstanding.

Our revised fair value estimate is \$1.39 per share versus our previous estimate of \$1.45 per share. The valuation dropped despite an increase in our EPS estimates because of an overall decline in comparable multiples. We reiterate our BUY rating and adjust our fair value estimate on CIBT's shares to \$1.39 per share.

Revising fair value to  
\$1.39 per share

	EV / Revenue	EV / EBITDA	P / B
American Campus Communities	10.60	20.30	1.80
Education Realty Trust (acquired)	11.00	21.45	1.60
Pure Multi-Family REIT LP (acquired)	10.50	20.80	1.10
Killam Apartment REIT	15.20	27.00	1.40
Morguard North American Residential	10.10	21.70	0.70
Northview Apartment REIT	12.00	23.00	1.20
<b>Average (excl. outliers)</b>	<b>10.84</b>	<b>21.45</b>	<b>1.28</b>

	Projected Annual Revenues	Projected EBITDA	Projected Book Value
\$, millions	\$74.18	\$36.97	\$163.50
	(FRC est.)	(based on a peer average EBITDA margin of 49.8%)	20% of the est. cost of \$0.88B
Fair Value of 25.4% Equity (\$, millions)	\$38.17	\$35.33	\$53.22
<b>Average (\$, millions)</b>	<b>\$42.24</b>		

Valuation	Fair Value	Fair Value per Share
<b>Education Management</b>		
* Discounted Cash Flow @ 10%	\$61,286,828	\$0.79
* EV / Revenue @ 1.3x	\$69,699,500	\$0.90
<b>Average</b>	<b>\$65,493,164</b>	<b>\$0.84</b>
<b>Student Housing (GEC)</b>	<b>\$42,241,972</b>	<b>\$0.54</b>
<b>Fair Value Estimate</b>	<b>\$107,735,136</b>	<b>\$1.39</b>

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.
- 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.

**We maintain our risk rating of 3.**

**APPENDIX**

<b>INCOME STATEMENTS</b>					
<b>(in C\$)</b>					
	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>
<b>REVENUES</b>					
Educational	37,710,897	49,484,021	52,061,000	53,609,015	55,203,125
Rental	8,623,826	10,609,929	13,035,000	12,783,200	16,206,750
Commissions + Referral Fees	852,172	903,903	692,000	553,600	567,440
Design and advertising IRIX	998,824	1,096,658	862,000	862,000	905,100
Development fees	5,372,144	12,805,410	4,347,000	6,955,200	6,955,200
<b>Total Revenues</b>	<b>53,557,863</b>	<b>74,899,921</b>	<b>70,997,000</b>	<b>74,763,015</b>	<b>79,837,615</b>
<b>DIRECT COSTS</b>					
Educational	17,636,745	22,709,962	22,986,000	23,899,495	24,608,691
Commissions + Referral Fees	497,650	675,663	455,000	365,376	374,510
Rental	5,766,940	5,271,325	7,090,000	5,752,440	7,293,038
Design and advertising IRIX	240,809	249,835	192,000	215,500	226,275
<b>Total Direct Costs</b>	<b>24,142,144</b>	<b>28,906,785</b>	<b>30,723,000</b>	<b>30,232,811</b>	<b>32,502,514</b>
<b>Gross Profit</b>	<b>29,415,719</b>	<b>45,993,136</b>	<b>40,274,000</b>	<b>44,530,204</b>	<b>47,335,101</b>
<b>EXPENSES</b>					
Stock-based compensation	194,365	262,718	251,000	264,314	282,255
General and administrative	24,692,742	32,395,165	34,030,000	30,627,000	31,392,675
Website Development cost					
Business development costs/others					
<b>Total Expenses</b>	<b>24,887,107</b>	<b>32,657,883</b>	<b>34,281,000</b>	<b>30,891,314</b>	<b>31,674,930</b>
<b>EBITDA</b>	<b>4,528,612</b>	<b>13,335,253</b>	<b>5,993,000</b>	<b>13,638,890</b>	<b>15,660,171</b>
Amortization	1,190,329	1,811,415	2,215,000	2,548,255	2,502,020
<b>EBIT</b>	<b>3,338,283</b>	<b>11,523,838</b>	<b>3,778,000</b>	<b>11,090,635</b>	<b>13,158,151</b>
Interest / Finance Cost	(2,640,046)	(5,635,740)	(6,594,000)	(8,856,954)	(9,168,795)
Interest Income	1,781,861	2,070,874	620,000		
Foreign exchange (loss) gain	(40,288)	16,987	(100,000)		
Loss on disposal of property, plant and equipment	34,771	-	-	-	-
<b>EBT</b>	<b>2,474,581</b>	<b>7,975,959</b>	<b>(2,296,000)</b>	<b>2,233,681</b>	<b>3,989,356</b>
Loss of investment in associates	(1,268,036)	(669,951)			
Gain on Change of Property FV	10,470,322	43,497,343	20,116,000	11,915,338	14,894,173
Discontinued operations / others	(1,501,751)	1,550,489	(1,733,000)	-	-
<b>Net Profit (Loss) before tax</b>	<b>10,175,116</b>	<b>52,353,840</b>	<b>16,087,000</b>	<b>14,149,019</b>	<b>18,883,529</b>
Taxes	1,891,082	6,982,675	1,155,000	446,736	797,871
<b>Net Profit (Loss)</b>	<b>8,284,034</b>	<b>45,371,165</b>	<b>14,932,000</b>	<b>13,702,283</b>	<b>18,085,657</b>
EPS	0.11	0.58	0.20	0.18	0.24
Non-controlling interests	(5,896,938)	(25,428,909)	(12,318,000)	(7,569,256)	(10,810,553)
<b>Net Profit (Loss) to CIBT</b>	<b>2,387,096</b>	<b>19,942,256</b>	<b>2,614,000</b>	<b>6,133,027</b>	<b>7,275,105</b>
EPS	0.03	0.25	0.03	0.08	0.10

**CONSOLIDATED BALANCE SHEETS**

(in C\$)

	2017A	2018A	2019A	2020F	2021F
<b>ASSETS</b>					
<b>CURRENT</b>					
Cash and short-term investments	7,129,892	33,495,798	15,462,000	15,789,762	19,511,943
Accounts receivable	9,271,204	18,327,693	20,831,000	21,282,483	22,727,049
Prepays and other	1,285,875	1,729,965	2,809,000	1,637,900	1,749,073
Others	930,149	862,746	10,708,000	10,708,000	10,708,000
Inventory	584,392	751,742	714,000	714,000	714,000
<b>Total Current Assets</b>	<b>19,201,512</b>	<b>55,167,944</b>	<b>50,524,000</b>	<b>50,132,145</b>	<b>55,410,065</b>
Due from Related Parties	2,776,320				
Property and Equipment / Right of Use Assets	4,142,299	62,277,524	61,416,000	61,418,673	61,508,303
Intangible Assets	13,178,800	9,457,443	8,661,000	7,386,873	6,135,863
Goodwill	7,056,274	10,356,253	9,056,000	9,056,000	9,056,000
Future Income Tax	2,046,307	3,867,389	1,650,000	1,650,000	1,650,000
Deferred Cur. Dev. Costs & Other Assets	1,854,124			-	-
Investment property	101,010,000	144,670,000	201,450,000	263,032,005	327,592,844
Refundable deposits + Investment	15,416,361	55,040,079	56,913,000	56,913,000	56,913,000
Assets held for Sale/Cash held in trust	-	-	-	-	-
<b>Total Assets</b>	<b>166,681,997</b>	<b>340,836,632</b>	<b>389,670,000</b>	<b>449,588,695</b>	<b>518,266,075</b>
<b>LIABILITIES</b>					
<b>CURRENT</b>					
Accounts payable and accrued liabilities	7,454,305	16,596,566	16,248,000	9,828,112	10,565,950
Deferred revenue	18,452,047	23,572,827	23,177,000	27,868,986	29,760,616
Lease obligation + provision	193,933		-	-	-
Income Tax Payable	273,212	5,069,250	178,000	178,000	178,000
Current portion of the long-term debt	33,362,364	28,553,370	42,089,000	42,089,000	42,089,000
<b>Total Current Liabilities</b>	<b>59,735,861</b>	<b>73,792,013</b>	<b>81,692,000</b>	<b>79,964,098</b>	<b>82,593,565</b>
Lease Obligation			-	-	-
Long-term Debt	26,047,512	87,051,236	102,062,000	141,795,333	181,528,667
Future Income Tax Liabilities	4,085,456	8,341,202	11,762,000	11,762,000	11,762,000
<b>SHAREHOLDERS EQUITY</b>					
Share capital	52,190,322	52,039,965	50,786,000	50,786,000	50,786,000
Contributed surplus	5,741,510	5,692,765	6,571,000	6,835,314	7,117,569
Accumulated Comprehensive loss	243,766	248,034	199,000	199,000	199,000
Non-controlling interests	47,280,963	122,210,962	142,706,000	158,221,923	176,979,142
Deficit	(28,643,393)	(8,539,545)	(6,108,000)	25,027	7,300,131
<b>Total shareholders' equity (deficiency)</b>	<b>76,813,168</b>	<b>171,652,181</b>	<b>194,154,000</b>	<b>216,067,264</b>	<b>242,381,843</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>166,681,997</b>	<b>340,836,632</b>	<b>389,670,000</b>	<b>449,588,695</b>	<b>518,266,075</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in C\$)

	2017A	2018A	2019A	2020F	2021F
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net Profit (Loss) for the year	8,284,034	45,371,165	14,932,000	13,702,283	18,085,657
Adjusted for items not involving cash:					
- amortization	1,944,159	3,377,604	3,667,000	2,548,255	2,502,020
- stock-based compensation	194,365	262,718	251,000	264,314	282,255
- loss on disposal of property, plant and equipment	(144,133)	(2,295,672)	51,000	-	-
-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)	(20,116,000)	(11,915,338)	(14,894,173)
-finance fees	766,267	1,039,765	663,000		
-future/current income tax provision/others	2,046,497	1,539,127	7,920,000		
<b>Funds From Operations</b>	<b>3,888,903</b>	<b>6,467,315</b>	<b>7,368,000</b>	<b>4,599,514</b>	<b>5,975,759</b>
Net changes in non-cash working capital items	7,108,759	13,401,605	(17,130,000)	(1,008,285)	1,073,728
Discontinued Operations					
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>10,997,662</b>	<b>19,868,920</b>	<b>(9,762,000)</b>	<b>3,591,229</b>	<b>7,049,487</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
PP&E	(1,782,241)	(2,538,431)	(1,216,000)	(1,276,800)	(1,340,640)
Investment Properties	(35,148,261)	8,967,827	1,274,000		
Deposits on real estate properties	(500,000)	(52,000,000)	(12,150,000)		
Acquisitions	(8,297,361)	(15,834,974)	(2,329,000)	(49,666,667)	(49,666,667)
Disposal of business assets	(169,892)				
Restricted cash	(101,507)	(42)			
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(45,999,262)</b>	<b>(61,405,620)</b>	<b>(14,421,000)</b>	<b>(50,943,467)</b>	<b>(51,007,307)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash from equity and debt issuances	5,096,956	374,048	52,000		
Private Placement Subscription					
Acquisition of the Company's shares into treasury, net	(661,512)	(689,148)	(1,832,000)	-	-
Advances (to) from related parties	(2,855,956)	(11,797,050)	(869,000)		
Lease obligation repayments	(137,259)				
Non controlling interest capital contribution	10,510,050	49,349,137	8,758,000	7,946,667	7,946,667
Loan principal payments	(899,738)				
Long-term debt advances	29,476,661	33,978,413	4,312,000	39,733,333	39,733,333
Funds from loan advances	(2,478,747)				
Deferred finance fees	(521,927)	(3,314,231)	(4,214,000)	-	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>37,528,528</b>	<b>67,901,169</b>	<b>6,207,000</b>	<b>47,680,000</b>	<b>47,680,000</b>
Foreign Exchange / Others	11,486	1,395	(57,000)		
<b>INCREASE IN CASH FOR THE YEAR</b>	<b>2,538,414</b>	<b>26,365,864</b>	<b>(18,033,000)</b>	<b>327,762</b>	<b>3,722,181</b>
CASH, BEGINNING OF THE YEAR	4,341,970	6,880,384	33,246,248	15,462,000	15,789,762
<b>CASH, END OF THE YEAR</b>	<b>6,880,384</b>	<b>33,246,248</b>	<b>15,213,248</b>	<b>15,789,762</b>	<b>19,511,943</b>

**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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