Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

May 10, 2018

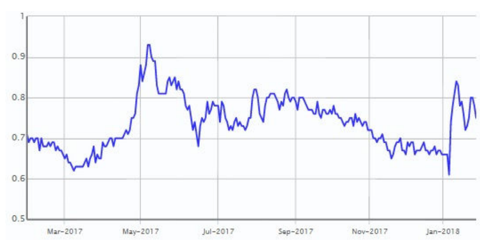
# CIBT Education Group Inc. (TSX: MBA) – Launches Eighth Project / Q1 Revenues Beat Expectations

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

**Market Data (as of May 10, 2018)**

| | |
|---|---|
| **Current Price** | **C$0.73** |
| **Fair Value** | **C$1.51** |
| **Rating*** | **BUY** |
| **Risk*** | **3** |
| 52 Week Range | C$0.58 - C$0.89 |
| Shares O/S | 78,888,540 |
| Market Cap | C$57.59 mm |
| Current Yield | N/A |
| P/E (forward) | N/A |
| P/B | 1.7x |
| YoY Return | -18.0% |
| YoY TSX | 2.1% |

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




## Highlights

- Vancouver's rental market remains extremely tight with rental rates at historical highs, and vacancy at historical lows. The vacancy rate in Metro Vancouver for bachelor suites was 0.7%, as per the CMHC.
- CIBT recently launched its eighth GEC location in Richmond. This $230 million project, covering 412,000 sq. ft., is likely to include an office tower and two residential towers. Approximately $45 million in equity has been raised to date. CIBT will receive a 20% equity interest in the project.
- Possession of GEC Pearson is expected in June 2018, which will add another 310 beds with potential annual rental revenues of over $4 million.
- In Q2-FY2018, revenues increased by 48.5% YOY, to $17.66 million, and were higher than our forecasts. Six month revenues were up 30.2% YoY to $31.86 million. We are raising our FY2018 revenue estimate from $79 million to $84 million.
- After deducting non-controlling interests, the company reported net income of $2.43 million (EPS: $0.03) in Q2-FY2018, versus $0.09 million (EPS: $0.00) in Q2-FY2017.
- <u>We are raising our fair value estimate from $1.46 to $1.51 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 | 83,697,042 | 90,117,450 |
| EBITDA | 691,627 | (527,312) | 4,576,382 | 20,342,313 | 25,152,635 |
| EBITDA Margin | 2.1% | -1.5% | 8.5% | 24.3% | 27.9% |
| Net Income | 6,000,774 | 9,215,414 | 8,122,442 | 33,232,279 | 36,979,664 |
| EPS (Basic) | 0.09 | 0.13 | 0.11 | 0.42 | 0.47 |
| Debt to Capital | 44.0% | 35.2% | 43.8% | 55.6% | 58.2% |
| ROE | 20.1% | 17.5% | 8.3% | 44.4% | 31.2% |

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

**_Update on the Vancouver RE Market_**

The B.C. government recently announced plans to introduce new measures to stabilize housing prices. Among the new measures, the key ones include raising the existing 15% foreign buyer tax to 20%, introducing a new property tax targeting out-of-province home owners, and axing the program that offered interest-free loans to first-time homebuyers. As a result of the new measures, Vancouver's real estate sales dropped for the first time in February 2018, since July 2017. Sales subsequently dropped 30% in March 2018, and 27% in April 2018. Sales declined across all property types.

**Metro Vancouver Statistics**

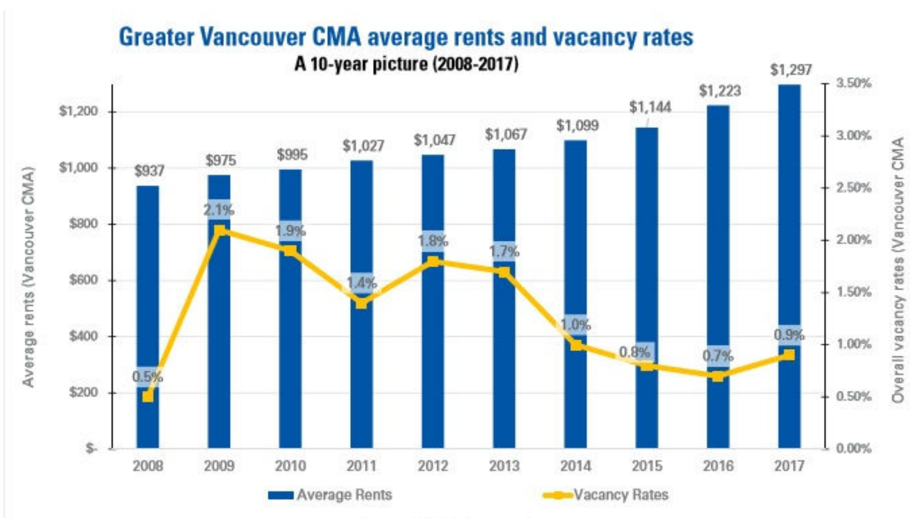
| Metro Vancouver | Sep-16 | Sep-17 | YoY | Oct-16 | Oct-17 | YoY | Nov-16 | Nov-17 | YoY | Dec-16 | Dec-17 | YoY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Residential Sales | 2,253 | 2,821 | 25% | 2,233 | 3,022 | 35% | 2,214 | 2,795 | 26% | 1,714 | 2,016 | 18% |
| New Listings | 4,799 | 5,375 | 12% | 3,981 | 4,539 | 14% | 3,147 | 4,109 | 31% | 1,312 | 1,891 | 44% |
| Active Listings | 9,354 | 9,466 | 1% | 9,143 | 9,137 | 0% | 8,385 | 9,137 | 9% | 6,345 | 6,958 | 10% |
| Sales to Listings | 24.09% | 29.80% | | 24.42% | 33.07% | | 26.40% | 30.59% | | 27.01% | 28.97% | |
| MLS Home Price Index | $926,600 | $1,037,300 | 12% | $919,300 | $1,042,300 | 13% | $908,300 | $1,046,900 | 15% | $906,500 | $1,050,300 | 16% |

| Metro Vancouver | Jan-17 | Jan-18 | YoY | Feb-17 | Feb-18 | YoY | Mar-17 | Mar-18 | YoY | Apr-17 | Apr-18 | YoY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Residential Sales | 1,523 | 1,818 | 19% | 2,425 | 2,207 | -9% | 3,579 | 2,517 | -30% | 3,553 | 2,579 | -27% |
| New Listings | 4,140 | 3,796 | -8% | 3,666 | 4,223 | 15% | 4,762 | 4,450 | -7% | 4,907 | 5,820 | 19% |
| Active Listings | 7,238 | 6,947 | -4% | 7,594 | 7,822 | 3% | 7,586 | 8,380 | 10% | 7,813 | 9,822 | 26% |
| Sales to Listings | 21.04% | 26.17% | | 31.93% | 28.22% | | 47.18% | 30.04% | | 45.48% | 26.26% | |
| MLS Home Price Index | $896,000 | $1,056,500 | 18% | $906,700 | $1,071,800 | 18.2% | $919,300 | $1,084,000 | 17.9% | $941,100 | $1,092,000 | 16% |

*Source: Real Estate Board of Greater Vancouver*

The sales to active ratio was 26% in April 2018, versus 45% in April 2017. Generally, a sales to active ratio of over 20% indicates a seller's market (strong price environment). However, we remain very cautious and expect the new measures to continue to impact sales in the near-term. Note that the introduction of the foreign property tax in 2016 had impacted sales in the first half of 2017.

Despite the expected slowdown in real estate sales, Vancouver's **rental market remains extremely tight,** with rental rates at historical highs, and vacancy remaining low.



The following table shows that the vacancy rate in Metro Vancouver for bachelor suites is just 0.7%.

**Vacancy Rates**

| | Total | Bachelor | 1 Bdrm | 2 Bdrm | 3+ Bdrm |
|---|---|---|---|---|---|
| **Metro Vancouver** | **1.5%** | **0.7%** | **0.7%** | **0.7%** | **1.4%** |
| Burnaby, New Westminster | 1.4% | 0.9% | 1.3% | 1.7% | 1.0% |
| Langley City and Township | 2.1% | 5.1% | 1.3% | 2.3% | n/a |
| Maple Ridge, Pitt Meadows | 1.0% | n/a | 0.9% | 1.3% | n/a |
| Coquitlam, Port Coquitlam, Port Moody | 2.0% | 1.7% | 1.8% | 2.5% | 1.7% |
| North Van. City and District West Vancouver | 1.7% | 1.1% | 0.8% | 1.4% | 1.6% |
| Richmond, Delta | 1.4% | 0.8% | 1.3% | 1.5% | 2.2% |
| Surrey, White Rock | 1.0% | n/a | 0.8% | 1.1% | 0.3% |
| Vancouver, Electoral Area A | 1.5% | 1.5% | 1.4% | 1.6% | 2.1% |

Source: CMHC Rental Market Reports

*Source: CMHC*

The following table from a recent Goodman Report showed that the total number of apartment units in the City of Vancouver has only increased by 0.6% p.a. from 2010 to 2017. Apartment units in suburban areas increased at 0.5% p.a.

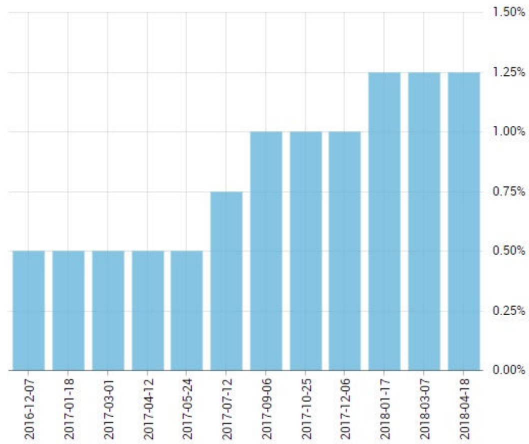
| | 2010 (total apartment units) | 2017 (total apartment units) | Change (units) | Change (%) |
|---|---|---|---|---|
| **City of Vancouver** | 54,791 | 57,243 | +2,452 | +4.48% |
| **Suburban** | 104,457 | 108,496 | +4,039 | +3.9% |

*Source: CMHC*

According to the 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.

Another factor that we believe is likely to increase demand for rentals is rising mortgage rates. The Bank of Canada has **raised the overnight lending rate three times** over the past 12 months – first in July 2017, second in September 2017, and the third in January 2018. Four banks raised their posted mortgage rates last week. TD (TSX: TD) raised its 5-year fixed rate by 0.45%, RBC (TSX: RY), National Bank of Canada (TSX: NA) and CIBC (TSX: CM) raised by 0.1% to 0.3%.

**Canada - overnight lending rate**

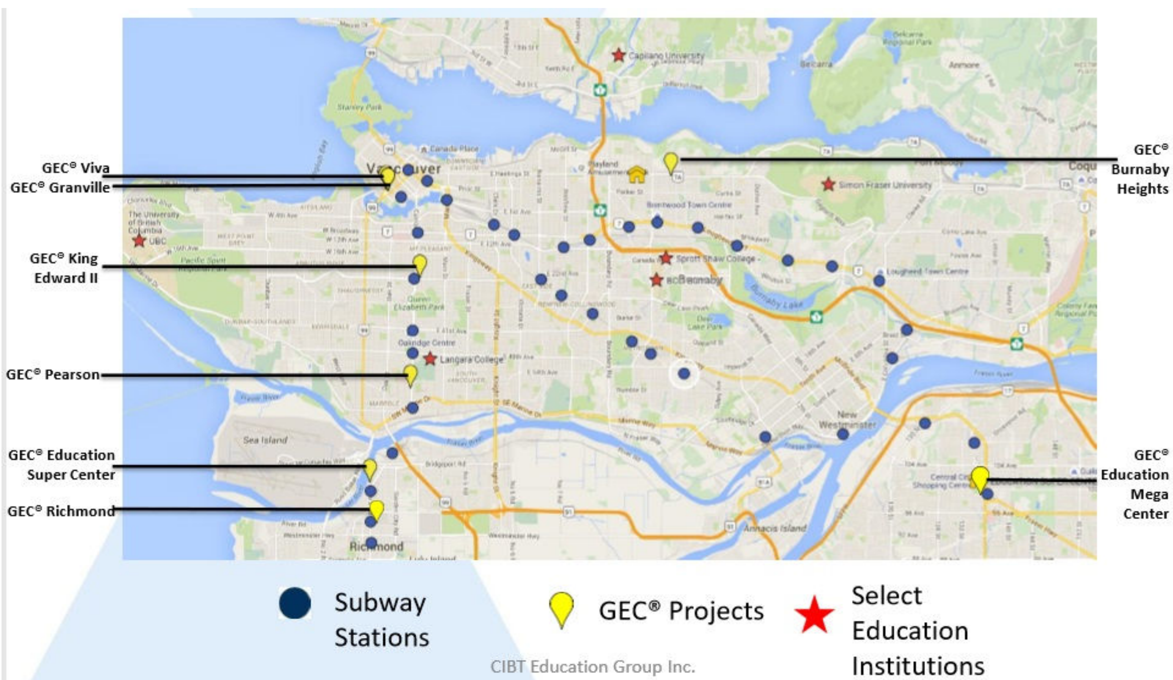



*Source: Bank of Canada*

**Overall, we believe the market conditions remain highly conducive for CIBT's business model.**

***GEC's RE Portfolio***

A map showing the company'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.

| | Viva | Burnaby Heights | West King Edward II | Pearson | Granville | Super Center(Richmond) | Mega Center (Surrey) | Richmond | Total |
|---|---|---|---|---|---|---|---|---|---|
| Projected Annual Rental Income (FRC Est.) | $3,500,000 | $1,775,000 | $2,437,820 | $4,250,000 | $8,200,000 | $19,565,000 | $26,500,000 | $19,050,000 | **$85,277,820** |
| CIBT Ownership | 20.0% | 25.0% | 23.0% | 42.8% | 47.0% | 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 | $35,000,000 | $17,750,000 | $22,162,000 | $42,500,000 | $57,000,000 | $182,000,000 | $265,000,000 | $254,000,000 | **$875,412,000** |
| Beds | 224 | 84 | 188 | 310 | 221 | 1000 | 1400 | 1100 | **4,527** |
| Status | Operating | Operating | Under Development | Under Construction (operational by June 2018) | Operating | In Planning Stages (expected completion in Spring 2020) | In Planning Stages (expected completion in Spring 2020) | construction starts Nov 2018 | |
| NOI Estimate (FRC est.) | $1,931,961 | $887,373 | $1,462,692 | $2,550,000 | $4,100,000 | $11,739,000 | $17,225,000 | $12,382,500 | **$52,278,526** |
| Cap Rate (assumption) | 3.5% | 3.7% | 4.0% | 3.7% | 5.0% | 4.5% | 4.5% | 4.0% | |
| Current Valuation (FRC est.) | $54,743,626 | $23,900,000 | $36,567,300 | $68,680,251 | $65,920,000 | $260,866,667 | $382,777,778 | $309,562,500 | **$1,203,018,121** |
| Gain (FRC Est.) | $19,743,626 | $6,150,000 | $14,405,300 | $26,180,251 | $8,920,000 | $78,866,667 | $117,777,778 | $55,562,500 | **$327,606,121** |

*GEC Education Super/Mega Center 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*

Following were the key developments since our previous report in February 2018:

- Launched GEC Richmond in March - the eighth GEC location. This $230 million project, covering 412,000 sq. ft., is likely to include an office tower and two residential towers. Approximately $45 million in equity has been raised to date. Management expects to raise an additional $25 million in equity by the end of this year. CIBT will receive a 20% equity interest in the project.
- At the time of our previous report in February 2018, the company was restructuring GEC Granville's ownership. The company raised $12 million in January 2018. Funds were used to form a new partnership to acquire all the outstanding LP units from the original partners, and increase CIBT's ownership from 20% to 47%. According to CIBT, the original major investors exited with a total return of over 130%.
- A total of $31 million completed in Phase 2 equity raise, and arranged debt financing for the GEC Education Mega Center.
- Possession of GEC Pearson expected in June 2018 (310 beds with potential rental revenues of over $4 million)
- Sale of four commercial ground floor units at GEC Burnaby Heights for $6 million,

with an expected closing date by the end of June.

*Revenues up 48.5% YOY*

Approximately 530 beds are currently in operation. Management expects to have over 870 beds by June. The company is planning to exit two undisclosed projects this year, and monetize their significant increase in property valuations.

In Q2-FY2018, revenues increased by 48.5% YOY, to $17.66 million, and were higher than our forecasts. Six-month revenues were up 30.2% YoY to $31.86 million. The table below summarizes the company's key divisions and their revenues.

**Revenues and Margins by Segment**

| | Q2-2017 | Q2-2018 | YOY | 2017 (6M) | 2018 (6M) | YOY |
|---|---|---|---|---|---|---|
| **SSC + Others** | | | | | | |
| Revenues | 6,945,351 | 11,157,989 | 60.7% | 13,824,032 | 22,020,809 | 59.3% |
| Gross Margins | 57.77% | 54.81% | | 57.73% | 54.03% | |
| **CIBT** | | | | | | |
| Revenues | 509,320 | 684,734 | 34.4% | 989,608 | 1,322,257 | 33.6% |
| Gross Margins | 47.76% | 50.21% | | 45.36% | 52.59% | |
| **IRIX** | | | | | | |
| Revenues | 249,128 | 173,347 | -30.4% | 465,010 | 550,401 | 18.4% |
| Gross Margins | 64.27% | 115.92% | | 74.43% | 72.64% | |
| **Commissions + Referral Fees** | | | | | | |
| Revenues | 143,751 | 174,749 | 21.6% | 419,875 | 479,905 | 14.3% |
| Gross Margins | 13.93% | 19.44% | | 33.36% | 24.23% | |
| **Global Education City** | | | | | | |
| Revenues (rental) | 1,514,018 | 1,823,019 | 20.4% | 3,178,633 | 3,844,336 | 20.9% |
| Gross Margins | 21.25% | 24.59% | | 23.69% | 25.31% | |
| **Global Education City** | | | | | | |
| Development fees | 1,130,953 | 3,642,820 | 222.1% | 5,595,239 | 3,642,820 | -34.9% |
| **Overall Revenues** | **10,492,521** | **17,656,658** | 48.5% | **24,472,397** | **31,860,528** | 30.2% |
| Overall Gross Margins | 57.89% | 61.08% | | 63.13% | 55.64% | |

*Source: Company Data*

Revenue growth primarily came from development fees, and the acquisition of KGIC.

- **Educational revenues (excluding China)** were $11.16 million, up 61%, and were lower than our estimate. We have revised our FY2018 revenue forecast from $51.05 million to $48.50 million.

- **CIBT China's** revenues grew again this quarter, as Q2 revenues were up 34% YoY in Q2. Q1 revenues were up 33% YoY. The company had been phasing out its programs in China, and revenues had been on a declining trend prior to the past two

- quarters. Gross margins also increased from 48% to 50%. According to management, the recent revenue growth was primarily due to an increase in teacher training and other programs. We are now raising our FY2018 revenue forecast from $1.78 million to $2.16 million.

- The company reported **rental revenues** of $1.82 million, up 20% YoY, but down from $2.02 million in Q1. Revenues came from Viva Suites Hotel, Granville, and Burnaby Heights. According to management, revenues in Q2 dropped QoQ as a result of the seasonality in the hotel sector. We are expecting a significant increase in rental revenues in the second half of the year as GEC Pearson becomes operational. Our FY2017 revenue forecast is unchanged at $12.22 million.

- The company reported **development fees** of $3.64 million in the quarter, up 222% YoY. Based on the reported development fees from GEC Richmond, we now expect the company to report development fees of $18.93 million in FY2018, versus our previous forecast of $11.93 million.

**We are raising our FY2018 revenue estimate from $79 million to $84 million. We are maintaining our FY2019 estimate at $90 million.**

Gross margins were 61% in Q2-2018 versus 58% in Q2-2017. Margins increased due to the increase in development fees this quarter, which have a 100% margin. We are maintaining our margin estimates.

**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% |

*Source: Company Data*

General and administrative ("G&A") expenses increased by 35% YOY to $7.61 million, and were in line with our expectations. Our FY2018 estimate is $30 million.

EBITDA was $3.10 million in Q2-FY2018, versus $0.42 million in Q2-FY2017**. EBITDA, including gain on property valuations, we estimate, was $3.11 million in Q2-FY2018, versus $2.58 million in Q2-FY2017.** Note that the company's reported figures are slightly different from our calculations. For the six month period, EBITDA (including gain in property value) was $11.21 million in FY2018, versus $9.00 million in FY2017

The total **gain in the valuation of properties** was $nil in Q2-FY2018, versus $2.16 million in Q2-FY2017. Since inception of the real estate business, the company has reported total gains of $36.50 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 $43 million over FY2018 and FY2019.

CIBT reported net income of $1.76 million in Q2-FY2018 versus $1.88 million in Q2-FY2017. After deducting non-controlling interests, CIBT reported net income of $2.43 million (EPS: $0.03) in Q2-FY2018, versus $0.09 million (EPS: $0.00) in Q2-FY2017. For the six-month period, the company reported $8.57 million (EPS: $0.11) in FY2018 versus $7.54 million (EPS: $0.11) in FY2017.

**We are adjusting our FY2018 estimate from $12.94 million / EPS: $0.17 to $16.92 million / EPS: $0.21. Our FY2019 estimate is maintained at $17.35 million / EPS: $0.22. Note that these figures are net of non-controlling interests.**

***Cash Flows***

Free cash flows were -$6.66 million in the first six months of FY2018, versus -$26.23 million in the comparable period in FY2017.

| Summary of Cash Flows (C$, mm) | 2016 (6M) | 2017 (6M) | 2018 (6M) |
|---|---|---|---|
| Operating | -$0.81 | $9.23 | $10.85 |
| Investing | -$3.93 | -$35.79 | -$17.51 |
| Financing | $4.74 | $29.15 | $13.76 |
| Effects of Exchange Rate | $0.00 | $0.03 | $0.10 |
| **Net** | **$0.00** | **$2.62** | **$7.20** |
| | | | |
| **Free Cash Flows to Firm (FCF)** | **-$5.76** | **-$26.23** | **-$6.66** |

*Source: Company Data*

***Balance Sheet***

At the end of Q2-FY2018, the company had $14.33 million in cash. The debt to capital was at 42%.

| Liquidity & Capital Structure (C$) | 2016A | 2017A | Q2-2018 |
|---|---|---|---|
| Cash + Restricted Cash | $4,489,971 | $7,129,892 | $14,330,282 |
| Working Capital | -$3,994,904 | -$40,534,349 | -$53,120,302 |
| Current Ratio | 0.76 | 0.32 | 0.46 |
| Debt/Capital | 35.21% | 43.78% | 41.51% |
| EBIT Interest Coverage | (1.0) | 1.2 | 3.2 |

*Source: Company Data*

Working capital and the current ratio were -$53.12 million and 0.5x, respectively. The negative working capital was due to $60.35 million in mortgages, and $22.99 million in deferred revenues.

***Stock Options and Warrants***

The company had 1.77 million options (weighted average exercise price – $0.71), and 2 million warrants (weighted average exercise price – $0.75) outstanding. 0.50 million options and all warrants are currently in the money.

***Valuation and Rating***

We are raising our fair value estimate to $1.46 from $1.51 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 | 10.50 | 21.00 | 1.60 |
| Education Realty Trust | NYSE: EDR | 10.80 | 23.40 | 1.40 |
| **Average** | | **10.65** | **22.20** | **1.50** |

| | Projected Annual Revenues | Projected EBITDA | Projected Book Value |
|---|---|---|---|
| $, millions | $85.28 | $35.88 | $175.08 |
| | (FRC est.) | (based on a peer average EBITDA margin of 42%) | 20% of the est. budget of $604M |
| Fair Value of 25% Equity ($, millions) | $51.97 | $24.04 | $65.66 |
| **Average ($, millions)** | **$47.22** | | |

| **Valuation** | **Fair Value** | **Fair Value per Share** |
|---|---|---|
| **Education Management** | | |
| * Discounted Cash Flow @ 10% | $65,054,347 | $0.82 |
| * EV / Revenue @ 1.5x | $78,833,063 | $1.00 |
| **Average** | **$71,943,705** | **$0.91** |
| **Student Housing (GEC)** | | |
| | **$47,222,820** | **$0.60** |
| **Fair Value Estimate** | **$119,166,524** | **$1.51** |

*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

| CONSOLIDATED STATEMENTS OF OPERATIONS (in C$) | 2016A | 2017A | 2018F | 2019F |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Educational | 27,629,310 | 37,775,263 | 50,654,438 | 55,504,074 |
| Rental | 4,959,459 | 8,623,826 | 12,216,667 | 17,765,000 |
| Commissions + Referral Fees | 1,036,372 | 852,172 | 852,172 | 852,172 |
| Design and advertising IRIX | 775,266 | 998,824 | 1,048,765 | 1,101,203 |
| Development fees | 1,713,737 | 5,372,144 | 18,925,000 | 14,895,000 |
| **Total Revenues** | **36,114,144** | **53,622,229** | **83,697,042** | **90,117,450** |
| **DIRECT COSTS** | | | | |
| Educational | 12,100,972 | 17,653,341 | 22,902,401 | 23,858,991 |
| Commissions + Referral Fees | 679,513 | 497,650 | 596,520 | 489,999 |
| Rental | 3,844,123 | 5,766,940 | 8,918,167 | 8,882,500 |
| Design and advertising IRIX | 161,204 | 240,809 | 262,191 | 275,301 |
| **Total Direct Costs** | **16,785,812** | **24,158,740** | **32,679,279** | **33,506,791** |
| **Gross Profit** | **19,328,332** | **29,463,489** | **51,017,763** | **56,610,659** |
| **EXPENSES** | | | | |
| Stock-based compensation | 26,758 | 194,365 | 303,377 | 326,650 |
| General and administrative | 19,828,886 | 24,692,742 | 30,372,073 | 31,131,374 |
| Business development costs/others | | | | |
| **Total Expenses** | **19,855,644** | **24,887,107** | **30,675,450** | **31,458,024** |
| **EBITDA** | **(527,312)** | **4,576,382** | **20,342,313** | **25,152,635** |
| Amortization | 870,376 | 1,290,329 | 1,732,110 | 1,746,034 |
| **EBIT** | **(1,397,688)** | **3,286,053** | **18,610,203** | **23,406,601** |
| Interest / Finance Cost | (1,394,171) | (2,640,046) | (4,084,421) | (6,240,297) |
| 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** | **14,525,782** | **17,166,304** |
| Loss of investment in associates | (820,662) | (1,268,036) | | |
| Gain on Change of Property Fair Value | 9,779,146 | 10,470,322 | 20,559,969 | 22,559,969 |
| Gain on sale of discontinued operations / others | 3,827,120 | (1,611,113) | - | - |
| **Net Profit (Loss) before tax** | **10,670,588** | **10,013,524** | **35,085,750** | **39,726,272** |
| Taxes | 1,455,174 | 1,891,082 | 1,853,471 | 2,746,609 |
| **Net Profit (Loss)** | **9,215,414** | **8,122,442** | **33,232,279** | **36,979,664** |
| EPS | 0.13 | 0.11 | 0.42 | 0.47 |
| Non-controlling interests | (5,309,450) | (5,896,938) | (16,312,563) | (19,630,366) |
| **Net Profit (Loss) to CIBT shareholders** | **3,905,964** | **2,225,504** | **16,919,716** | **17,349,298** |
| EPS | 0.06 | 0.03 | 0.21 | 0.22 |

| CONSOLIDATED BALANCE SHEETS (in C$) | | | | |
|---|---|---|---|---|
| **ASSETS** | **2016A** | **2017A** | **2018F** | **2019F** |
| **CURRENT** | | | | |
| Cash and short-term investments | 4,489,971 | 7,129,892 | 21,782,874 | 32,074,310 |
| Cash in escrow / trust | | | | |
| Accounts receivable | 6,795,474 | 9,271,204 | 23,825,696 | 25,653,368 |
| Prepaids and other | 695,716 | 1,285,875 | 1,833,625 | 1,974,283 |
| 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** | **48,956,736** | **61,216,502** |
| | | | | |
| Due from Related Parties | 2,329,947 | 2,776,320 | 2,776,320 | 2,776,320 |
| 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 | 263,744,969 | 409,554,937 |
| 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** | **359,311,433** | **517,600,054** |
| | | | | |
| **LIABILITIES** | | | | |
| | | | | |
| **CURRENT** | | | | |
| Accounts payable and accrued liabilities | 3,000,520 | 6,451,858 | 10,623,413 | 10,892,421 |
| Deferred revenue | 11,548,744 | 18,452,047 | 31,199,272 | 33,592,571 |
| 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 | 33,362,364 | 33,362,364 |
| 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** | **76,654,641** | **79,316,948** |
| | | | | |
| Lease Obligation | 324,009 | 584,579 | 584,579 | 584,579 |
| Long-term Debt | 28,344,426 | 25,462,933 | 139,202,933 | 237,802,933 |
| 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 | 6,044,887 | 6,371,537 |
| Accumulated Comprehensive loss | 237,890 | 243,766 | 243,766 | 243,766 |
| Non-controlling interests | 30,875,531 | 47,280,963 | 92,028,526 | 131,378,892 |
| Deficit | (30,868,897) | (28,643,393) | (11,723,677) | 5,625,621 |
| **Total shareholders' equity (deficiency)** | **54,939,347** | **76,813,168** | **138,783,824** | **195,810,138** |
| | | | | |
| **Total Liabilities and Shareholders Equity** | **102,346,541** | **166,681,997** | **359,311,433** | **517,600,054** |

| 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 | 33,232,279 | 36,979,664 |
| - amortization | 1,386,170 | 2,044,159 | 1,732,110 | 1,746,034 |
| - stock-based compensation | 26,758 | 194,365 | 303,377 | 326,650 |
| - 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) | (20,559,969) | (22,559,969) |
| -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** | **14,707,798** | **16,492,379** |
| Net changes in non-cash working capital items | 441,927 | 7,060,989 | 1,816,537 | 693,978 |
| Discontinued Operations | | | | |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(637,515)** | **10,997,662** | **16,524,335** | **17,186,357** |
| **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) | (142,175,000) | (123,250,000) |
| 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)** | **(144,046,353)** | **(125,214,921)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Cash from equity and debt issuances | 84,413 | 5,096,956 | | |
| Private Placement Subscription | | | | |
| Acquisition of the Company's shares into treasury, net | (351,474) | (661,512) | - | - |
| Advances (to) from related parties | (2,848,753) | (2,855,956) | | |
| Lease obligation repayments | (219,526) | (137,259) | | |
| Non controlling interest capital contribution | 10,374,000 | 10,510,050 | 28,435,000 | 19,720,000 |
| Loan principal payments | (14,585,142) | (899,738) | | |
| Long-term debt advances | 19,914,554 | 29,476,661 | 113,740,000 | 98,600,000 |
| 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** | **142,175,000** | **118,320,000** |
| Foreign Exchange / Others | 27,198 | 11,486 | | |
| **INCREASE IN CASH FOR THE YEAR** | **2,054,939** | **2,538,414** | **14,652,982** | **10,291,437** |
| CASH, BEGINNING OF THE YEAR | 2,286,631 | 4,341,970 | 7,129,892 | 21,782,874 |
| **CASH, END OF THE YEAR** | **4,341,570** | **6,880,384** | **21,782,874** | **32,074,310** |

**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 (73%), HOLD (6%), 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.