

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

December 7, 2018

CIBT Education Group Inc. (TSX: MBA) – Net Income up 735% YoY in FY2018

Sector/Industry: Education Services

www.cibt.net

Market Data (as of December 7, 2018)

Current Price	C\$0.73
Fair Value	C\$1.71
Rating*	BUY
Risk*	3
52 Week Range	C\$0.58 - C\$0.87
Shares O/S	78,285,040
Market Cap	C\$57.15 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.2x
YoY Return	-2.7%
YoY TSX	-8.1%

*See back of report for rating and risk definitions



Highlights

- Despite a slight increase in vacancy rates, Vancouver’s rental market remains extremely tight. Tighter lending policies, increasing lending rates, a large discrepancy between rental rates and housing prices, expected student growth, and a burgeoning technology sector, we believe, will continue to drive rental demand in Vancouver.
- In FY2018 (12 months ended August 31, 2018), CIBT reported 40% YOY revenue growth to \$75 million. The growth came from educational revenues, development fees, and rental revenues. Educational and rental revenues beat our estimates, while development fees were lower.
- After deducting non-controlling interest, CIBT reported net income of \$20 million (EPS: \$0.25), up 735% YoY. Our estimate was \$17 million / EPS: \$0.22.
- In November 2018, the company (through its Limited Partnership / LP) signed an agreement for the purchase of two parcels of land for \$25 million. The project (CIBT’s ninth) is likely to be a 220 bed / 63,000 sq ft high-rise rental building.
- By the end of FY2018, the company completed the previously announced sale of Viva for a realized a gain of \$17.5 million. CIBT received approximately \$3.5 million for its 20% interest, plus management fees and expense recovery.
- **We are raising our fair value estimate from \$1.63 to \$1.71 per share.**

Key Financial Data

(in C\$); YE - Aug 31	2015	2016	2017	2018	2019E	2020E
Revenues	32,178,951	36,114,144	53,557,863	74,899,921	82,638,406	89,309,529
EBITDA	691,627	(527,312)	4,528,612	13,335,253	17,436,373	21,848,120
EBITDA Margin	2.1%	-1.5%	8.5%	17.8%	21.1%	24.5%
Net Income	6,000,774	9,215,414	8,284,034	45,371,165	42,777,399	43,953,505
EPS (Basic)	0.09	0.13	0.11	0.58	0.55	0.56
Debt to Capital	44.0%	35.2%	43.6%	40.2%	51.3%	55.7%
ROE	20.1%	17.5%	8.9%	50.5%	24.8%	20.3%

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

Update on the Vancouver RE Market

Vancouver Census Metropolitan Area's (CMA) vacancy rates increased YoY in October 2018, but remained extremely tight. As shown in the table below, the average rental rates continued to increase YoY and remains at historical highs.

Vancouver CMA - Vacancy Rate					
	Oct-15	Oct-16	Oct-17	Oct-18	YoY
Bachelor	0.6%	0.7%	0.8%	0.9%	12.50%
1 Bedroom	0.8%	0.7%	0.9%	1.1%	22.22%
2 Bedroom	0.9%	0.7%	1.0%	0.9%	-10.00%
3 Bedroom	1.4%	1.4%	1.6%	1.0%	-37.50%

Vancouver CMA - Apartment Average Rent					
	Oct-15	Oct-16	Oct-17	Oct-18	YoY
Bachelor	\$937	\$1,013	\$1,060	\$1,150	8.49%
1 Bedroom	\$1,079	\$1,159	\$1,223	\$1,307	6.87%
2 Bedroom	\$1,368	\$1,450	\$1,552	\$1,649	6.25%
3 Bedroom	\$1,615	\$1,631	\$1,801	\$1,921	6.66%

Vancouver CMA - Number of Units (Supply)					
	Oct-15	Oct-16	Oct-17	Oct-18	YoY
Bachelor	11,958	11,981	12,343	12,313	-0.24%
1 Bedroom	66,901	67,302	67,607	67,989	0.57%
2 Bedroom	25,872	26,349	26,375	26,751	1.43%
3 Bedroom	2,214	2,235	2,171	2,236	2.99%

Source: FRC / CMHC

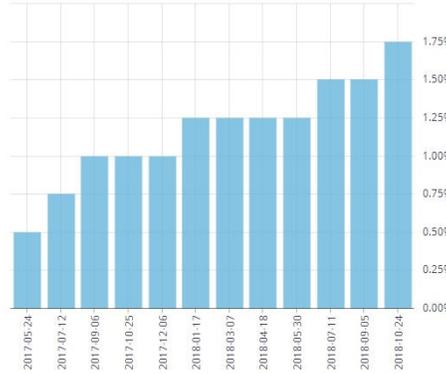
A key reason for the increased vacancy is the significant increase in supply, as shown below.

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

Source: City of Vancouver / CMHC

In October 2018, the Bank of Canada increased rates by 0.25% to 1.75% - making it the third hike this year, but decided to hold rates in their most recent meeting this week.

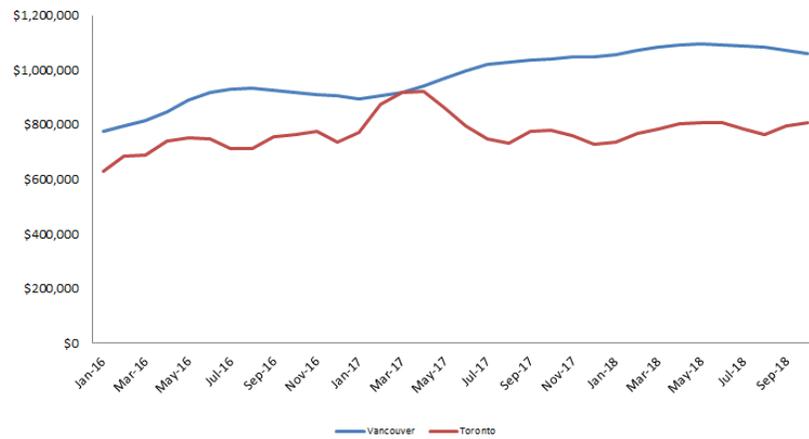
Benchmark Interest Rate



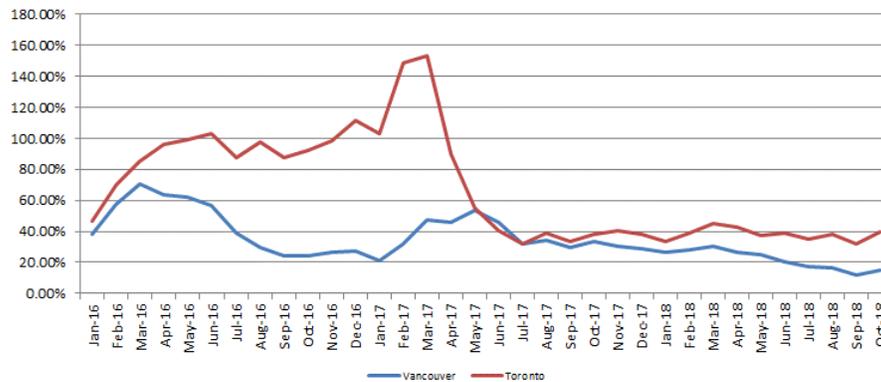
Source: Bank of Canada

Despite a significant decline in real estate sales in Vancouver, housing (except for higher end detached properties) prices remain high. The following chart shows average housing prices in Vancouver relative to Toronto.

Home Index Price



Sales to Active

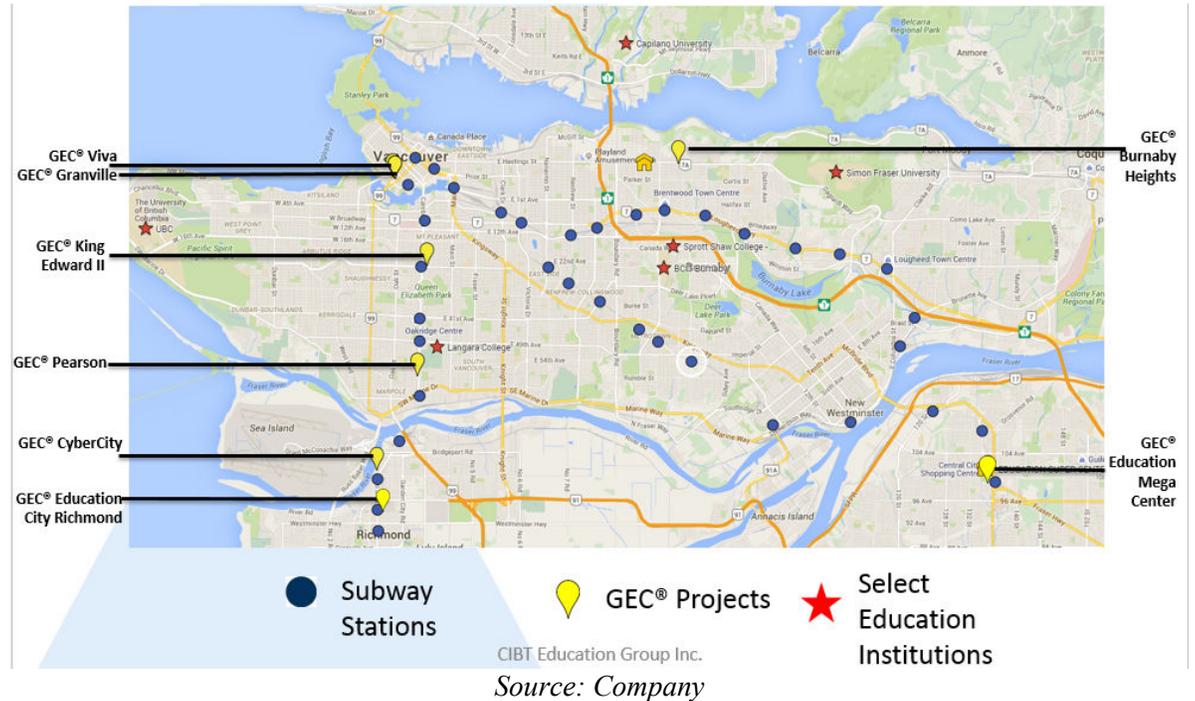


Source: TREB and REBGV

GEC's RE Portfolio

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

A map showing CIBT's projects is presented below.



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	Pearson	Granville	Burnaby Heights	King Edward	Cyber City (Richmond)	Mega Center (Surrey)	Richmond	Langara	Total
Status	Operating	Operating	Operating	Operating	Under Development	In Planning Stages (expected completion in 2023)	In Planning Stages (expected completion in 2023)	Construction commenced in Nov 2018 / sales centre commenced operations in Dec 2018	Construction expected to commence mid 2019 / waiting for development permit	
Projected Annual Rental Income (FRC Est.)	\$3,600,000	\$3,915,000	\$7,300,000	\$1,235,000	\$3,339,000	\$20,096,000	\$32,400,000	\$23,960,000	\$6,000,000	\$101,845,000
CIBT Ownership		38.5%	47.0%	25.0%	27.1%	23.0%	21.0%	20.0%	20.0%	
CIBT Management Fee	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Purchase Price/Project Costs		\$43,500,000	\$39,000,000	\$19,000,000	\$47,700,000	\$251,200,000	\$324,000,000	\$239,600,000	\$60,000,000	\$1,024,000,000
Beds	224	310	221	84	188	1000	1400	1100	220	4,747
NOI Estimate (FRC est.)	\$1,931,961	\$2,623,050	\$3,650,000	\$741,000	\$2,003,400	\$12,057,600	\$21,060,000	\$15,574,000	\$3,900,000	\$63,541,011
Cap Rate (assumption)		2.8%	5.0%	2.8%	3.50%	4.25%	4.25%	4.25%	4.25%	
Current Valuation (FRC est.)		\$93,452,794	\$65,920,000	\$26,400,000	\$57,240,000	\$283,708,235	\$495,529,412	\$366,447,059	\$91,764,706	\$1,480,462,205
Gain (FRC Est.)		\$49,952,794	\$26,920,000	\$7,400,000	\$9,540,000	\$32,508,235	\$171,529,412	\$126,847,059	\$31,764,706	\$456,462,205

*Ownership may change with project financing

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

Source: Company and FRC

Currently, 870 beds are in operation. The following were the key developments since our previous report in July 2018:

- In November 2018, a newly formed entity (GEC LP 10 / Langara) signed an agreement for the purchase of two parcels of land for \$25 million. The land package is along the Cambie Street corridor, just one-minute walk from a Skytrain station. The project is likely to be a 220 bed / 63,000 sq ft high-rise apartment building. Management expects a total development budget of \$60 million. The project already has re-zoning approval. Management expects construction to commence in early 2019.
- Completed the sale and leaseback of Viva – as discussed in our previous update, the company and its investors realized a gain of \$17.5 million. CIBT received approximately \$3.5 million for its 20% interest plus cost recovery, and management fees. The property continues to operate under the GEC® brand for at least five years under a master lease by GEC. Leasing fees were not disclosed.
- Pearson – received occupancy permit in August 2018 and commenced operations.
- GEC Richmond - CIBT’s LP is required to pay deposits totaling \$65 million by December 2018, of which, \$55 million has been paid to date, with a final payment

Revenues up 40% YoY

due in late January. Construction commenced in November.

- Mega Center (Surrey) – four out of five rezoning approvals received; management expects other approvals by early 2019, and to commence construction by Q3 2019.

In FY2018, revenues increased 40% YOY to \$74.90 million. The table below summarizes the company’s key divisions and their revenues.

Revenues and Margins by Segment

	2016A	2017A	2018A	YOY
SSC + Others				
Revenues	25,421,075	35,984,436	47,368,828	31.64%
Gross Margins	57.40%	53.6%	54.3%	
CIBT				
Revenues	2,208,235	1,726,461	2,115,193	22.52%
Gross Margins	41.70%	45.6%	47.00%	
IRIX				
Revenues	775,266	998,824	1,096,658	9.79%
Gross Margins	79.2%	75.9%	77%	
Commissions + Referral Fees				
Revenues	1,036,372	852,172	903,903	6.07%
Gross Margins	34%	41.6%	25.0%	
Global Education City				
Revenues (rental)	4,959,459	8,623,826	10,609,929	23.03%
Gross Margins	22.5%	33.1%	50%	
Global Education City				
Development fees	1,713,737	5,372,144	12,805,410	138.37%
Overall Revenues	36,114,144	53,557,863	74,899,921	39.85%
Overall Gross Margins	53.5%	54.9%	61%	

Source: Company Data

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

- **Educational revenues** were \$49.5 million, up 31%, and were higher than our \$48.7 million estimate. We have slightly raised our FY2019 estimate from \$52.1 million to \$52.4 million.
- **Rental revenues** were \$10.6 million, up 23% YoY (our estimate was \$10.4 million). Revenues came from Viva Suites Hotel, Granville, Burnaby Heights, and the recently operational Pearson. We are maintaining our FY2019 revenue forecast at \$14.21 million.
- **Development fees** were \$13 million, up 138% YoY (our estimate was \$17 million).

Our FY2019 estimate has been revised from \$19 million to \$14 million, as we estimate the fees to be paid in stages instead of upfront.

Based on the above, we are revising our FY2019 revenue estimate from \$87.54 million to \$82.64 million. We are introducing our FY2020 estimate in this report, which is \$89.31 million.

Gross margins were 61.4% in 2018 (our estimate was 62.1%) versus 54.9% in 2017, due to the high development fees, which carry 100% margin. We are revising our gross margins estimate for FY2019 from 65% to 62%, due to lower revenues from development fees.

Margins

	2016A	2017A	2018A
Gross	53.5%	54.9%	61.4%
EBITDA	-1.5%	8.5%	17.8%
EBIT	-3.9%	6.2%	15.4%
EBT	-5.8%	4.6%	10.6%
Net	-9.9%	1.0%	1.3%

Source: Company Data

General and administrative (“G&A”) expenses increased by 31% YOY to \$32.40 million, and were slightly higher than our estimate of \$31.85 million. Our FY2019 estimate has been adjusted from \$32.65 million to \$33.21 million.

EBITDA was \$13.34 million in FY2018 (our estimate was \$16.32 million), up 195% YoY. **EBITDA, including gain on property valuations and asset sales, we estimate, was \$58 million in FY2018 (our estimate was \$59 million), up 372% YoY.** Note that the company’s reported figures are slightly different from our calculations.

The total **gain in the valuation of properties** was \$43 million in FY2018 (our estimate was \$43 million) versus \$10 million in FY2017. Since inception of the real estate business, the company has reported total gains of \$71.36 million. The table on page 5 shows our estimates of the expected increase in valuations of the assets. We estimate the company will report a total valuation gain of \$73 million over FY2019 and FY2020.

CIBT reported net income of \$45 million in FY2018 (our estimate was \$51 million), net of an income tax provision of \$7.5 million, up 448% YoY. After deducting non-controlling interests, CIBT reported net income of \$20 million (EPS: \$0.25), up 735% YoY. Our estimate was \$17 million / EPS: \$0.22.

As a result of the above mentioned changes, we are adjusting our FY2019 net profit estimate from \$21.37 million / EPS: \$0.27 to \$14.01 million / EPS: \$0.18. Our FY2020 estimate is \$14.47 million / EPS: \$0.18. Note that these figures are net of non-controlling interests.

Cash Flows

Free cash flows were -\$42 million in FY2018 versus -\$35 million in FY2017.

Summary of Cash Flows			
(C\$, mm)	2016A	2017A	2018
Operating	-\$0.64	\$11.00	\$19.87
Investing	-\$7.10	-\$46.00	-\$61.41
Financing	\$9.76	\$37.53	\$67.90
Effects of Exchange Rate	\$0.03	\$0.01	\$0.00
Net	\$2.05	\$2.54	\$26.37
Free Cash Flows to Firm (FCF)	-\$7.82	-\$34.90	-\$41.54

Source: Company Data

Balance Sheet

At the end of FY2018, the company had \$33 million in cash (excluding restricted cash shown). The debt to capital was at 40%.

Liquidity & Capital Structure (C\$)	2016A	2017A	2018
Cash + Restricted Cash	\$4,489,971	\$7,129,892	\$33,495,798
Working Capital	-\$3,994,904	-\$40,534,349	-\$18,624,069
Current Ratio	0.76	0.32	0.75
Debt/Capital	35.21%	43.61%	40.24%
EBIT Interest Coverage	(1.0)	1.3	2.0

Source: Company Data

Working capital, and the current ratio, were -\$19 million and 0.8x, respectively. The negative working capital was due to \$29 million in mortgages (classified as short-term as they are up for renewal), and \$24 million in deferred revenues.

Stock Options and Warrants

The company had 1.87 million options (weighted average exercise price – \$0.72), and 1.99 million warrants (weighted average exercise price – \$0.75) outstanding. Approximately 0.30 million options are currently in the money.

Valuation and Rating

As a result of an expansion of the student housing portfolio, we are raising our fair value estimate from \$1.63 from \$1.71 per share. The following table summarizes our valuation.

	Ticker	EV / Revenue	EV / EBITDA	P / B
CHC Student Housing	TSXV: CHC	11.30		0.70
American Campus Communities	NYSE: ACC	10.60	21.50	1.70
Education Realty Trust (acquired)		13.10	28.40	1.60
Average		10.95	24.95	1.65

	Projected Annual Revenues	Projected EBITDA	Projected Book Value
\$, millions	\$101.85	\$42.60	\$204.80
	(FRC est.)	(based on a peer average EBITDA margin of 42%)	20% of the est. cost of \$1.02B
Fair Value of 23% Equity (\$, millions)	\$68.95	\$56.77	\$78.71
Average (\$, millions)	\$68.14		

Valuation	Fair Value	Fair Value per Share
Education Management		
* Discounted Cash Flow @ 10%	\$61,600,531	\$0.79
* EV / Revenue @ 1.3x	\$70,758,487	\$0.90
Average	\$66,179,509	\$0.84
Student Housing (GEC)	\$68,142,423	\$0.87
Fair Value Estimate	\$134,321,932	\$1.71

Source: FRC / S&P Capital IQ

We reiterate our BUY rating and raise our fair value estimate from \$1.63 to \$1.71 per share.

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 will be able to continue to do so going forward.

Appendix

INCOME STATEMENTS				
(in C\$)				
	2017A	2018A	2019F	2020F
REVENUES				
Educational	37,710,897	49,484,021	52,379,031	55,445,890
Rental	8,623,826	10,609,929	14,212,000	17,765,000
Commissions + Referral Fees	852,172	903,903	926,501	949,663
Design and advertising IRIX	998,824	1,096,658	1,124,074	1,152,176
Development fees	5,372,144	12,805,410	13,996,800	13,996,800
Total Revenues	53,557,863	74,899,921	82,638,406	89,309,529
DIRECT COSTS				
Educational	17,636,745	22,709,962	23,787,371	25,172,878
Commissions + Referral Fees	497,650	675,663	532,738	546,056
Rental	5,766,940	5,271,325	7,106,000	7,106,000
Design and advertising IRIX	240,809	249,835	281,019	288,044
Total Direct Costs	24,142,144	28,906,785	31,707,127	33,112,978
Gross Profit	29,415,719	45,993,136	50,931,278	56,196,551
EXPENSES				
Stock-based compensation	194,365	262,718	289,861	313,261
General and administrative	24,692,742	32,395,165	33,205,044	34,035,170
Business development costs/others				
Total Expenses	24,887,107	32,657,883	33,494,906	34,348,431
EBITDA	4,528,612	13,335,253	17,436,373	21,848,120
Amortization	1,190,329	1,811,415	3,586,748	3,540,679
EBIT	3,338,283	11,523,838	13,849,624	18,307,441
Interest / Finance Cost	(2,640,046)	(5,635,740)	(6,495,601)	(9,115,585)
Interest Income	1,781,861	2,070,874		
Foreign exchange (loss) gain	(40,288)	16,987		
Loss on disposal of property, plant and equipment	34,771	-	-	-
EBT	2,474,581	7,975,959	7,354,023	9,191,856
Loss of investment in associates	(1,268,036)	(669,951)		
Gain on Change of Property FV	10,470,322	43,497,343	36,600,020	36,600,020
Discontinued operations / others	(1,501,751)	1,550,489	-	-
Net Profit (Loss) before tax	10,175,116	52,353,840	43,954,043	45,791,876
Taxes	1,891,082	6,982,675	1,176,644	1,838,371
Net Profit (Loss)	8,284,034	45,371,165	42,777,399	43,953,505
EPS	0.11	0.58	0.55	0.56
Non-controlling interests	(5,896,938)	(25,428,909)	(28,765,046)	(29,486,266)
Net Profit (Loss) to CIBT	2,387,096	19,942,256	14,012,353	14,467,239
EPS	0.03	0.25	0.18	0.18

(in C\$)	2017A	2018	2019F	2020F
ASSETS				
CURRENT				
Cash and short-term investments	7,129,892	33,495,798	30,049,547	31,860,548
Accounts receivable	9,271,204	18,327,693	19,603,615	25,423,380
Prepays and other	1,285,875	1,729,965	1,810,433	1,956,583
Others	930,149	862,746	862,746	862,746
Inventory	584,392	751,742	751,742	751,742
Total Current Assets	19,201,512	55,167,944	53,078,084	60,854,999
Due from Related Parties	2,776,320	204,126	204,126	204,126
Property and Equipment	4,142,299	62,277,524	63,149,502	64,177,783
Intangible Assets	13,178,800	9,457,443	7,664,069	5,893,730
Goodwill	7,056,274	10,356,253	10,356,253	10,356,253
Future Income Tax	2,046,307	3,867,389	3,867,389	3,867,389
Deferred Cur. Dev. Costs & Other Assets	1,854,124	-	-	-
Investment property	101,010,000	144,670,000	356,230,020	567,790,040
Refundable deposits + Investment	15,416,361	54,835,953	54,835,953	54,835,953
Assets held for Sale/Cash held in trust	-	-	-	-
Total Assets	166,681,997	340,836,632	549,385,396	767,980,273
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	7,454,305	16,596,566	10,307,385	10,764,400
Deferred revenue	18,452,047	23,572,827	27,381,911	33,291,407
Lease obligation + provision	193,933	-	-	-
Income Tax Payable	273,212	5,069,250	5,069,250	5,069,250
Current portion of the long-term debt	33,362,364	28,553,370	28,553,370	28,553,370
Refundable deposits	-	-	-	-
Due to related parties	-	-	-	-
Total Current Liabilities	59,735,861	73,792,013	71,311,916	77,678,427
Lease Obligation	-	-	-	-
Long-term Debt	26,047,512	87,051,236	227,019,236	366,987,236
Liabilities held for Sale	-	-	-	-
Future Income Tax Liabilities	4,085,456	8,341,202	8,341,202	8,341,202
SHAREHOLDERS EQUITY				
Share capital	52,190,322	52,039,965	52,039,965	52,039,965
Contributed surplus	5,741,510	5,692,765	5,982,626	6,295,887
Accumulated Comprehensive loss	243,766	248,034	248,034	248,034
Non-controlling interests	47,280,963	122,210,962	178,969,608	236,449,474
Deficit	(28,643,393)	(8,539,545)	5,472,808	19,940,047
Total shareholders' equity (deficiency)	76,813,168	171,652,181	242,713,042	314,973,408
Total Liabilities and Shareholders Equity	166,681,997	340,836,632	549,385,396	767,980,273

CONSOLIDATED STATEMENTS OF CASH FLOWS					
(in C\$)					
	2016A	2017A	2018	2019F	2020F
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit (Loss) for the year	9,215,414	8,284,034	45,371,165	42,777,399	43,953,505
Adjusted for items not involving cash:					
- amortization	1,386,170	1,944,159	3,377,604	3,586,748	3,540,679
- stock-based compensation	26,758	194,365	262,718	289,861	313,261
- loss on disposal of property, plant and equipment	(3,818,757)	(144,133)	(2,295,672)	-	-
-gain from changes in ownership investment interests	820,662	1,268,036	669,951	-	-
-development fees	(242,418)				
-gain on fair value changes in investment properties	(9,779,146)	(10,470,322)	(43,497,343)	(36,600,020)	(36,600,020)
-finance fees	550,664	766,267	1,039,765		
-future/current income tax provision/others	761,211	2,046,497	1,539,127		
Funds From Operations	(1,079,442)	3,888,903	6,467,315	10,053,989	11,207,425
Net changes in non-cash working capital items	441,927	7,108,759	13,401,605	(3,836,487)	400,596
Discontinued Operations					
NET CASH USED IN OPERATING ACTIVITIES	(637,515)	10,997,662	19,868,920	6,217,502	11,608,021
CASH FLOWS FROM INVESTING ACTIVITIES					
PP&E	(458,527)	(1,782,241)	(2,538,431)	(2,665,353)	(2,798,620)
Investment Properties	(925,265)	(35,148,261)	8,967,827		
Deposits on real estate properties	(6,725,000)	(500,000)	(52,000,000)		
Acquisitions	(1,956,845)	(8,297,361)	(15,834,974)	(174,960,000)	(174,960,000)
Disposal of business assets	2,887,352	(169,892)			
Restricted cash	79,563	(101,507)	(42)		
NET CASH USED IN INVESTING ACTIVITIES	(7,098,722)	(45,999,262)	(61,405,620)	(177,625,353)	(177,758,620)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash from equity and debt issuances	84,413	5,096,956	374,048		
Acquisition of the Company's shares into treasury, net	(351,474)	(661,512)	(689,148)	-	-
Advances (to) from related parties	(2,848,753)	(2,855,956)	(11,797,050)		
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	49,349,137	27,993,600	27,993,600
Loan principal payments	(14,585,142)	(899,738)			
Long-term debt advances	19,914,554	29,476,661	33,978,413	139,968,000	139,968,000
Funds from loan advances	(1,897,308)	(2,478,747)			
Deferred finance fees	(706,786)	(521,927)	(3,314,231)	-	-
NET CASH FROM FINANCING ACTIVITIES	9,763,978	37,528,528	67,901,169	167,961,600	167,961,600
Foreign Exchange / Others	27,198	11,486	1,395		
INCREASE IN CASH FOR THE YEAR	2,054,939	2,538,414	26,365,864	(3,446,251)	1,811,001
CASH, BEGINNING OF THE YEAR	2,286,631	4,341,970	6,880,384	33,495,798	30,049,547
CASH, END OF THE YEAR	4,341,570	6,880,384	33,246,248	30,049,547	31,860,548

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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