

### CIBT Education Group Inc. (AMEX: MBA; TSXV: MBA) – 72% YoY drop in share price does not reflect fundamentals – FINAL REPORT

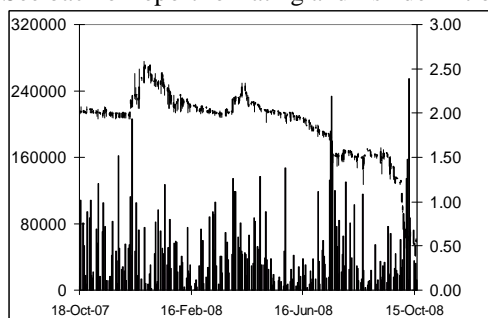
Sector/Industry: Education & Media Communication

[www.cibt.net](http://www.cibt.net)

#### Market Data (as of October 20, 2008)

|               |                   |
|---------------|-------------------|
| Current Price | C\$0.57           |
| Fair Value    | C\$2.55 (↓)       |
| Rating*       | BUY               |
| Risk*         | 3 (Average)       |
| 52 Week Range | C\$0.38 - C\$2.59 |
| Shares O/S    | 64,109,297        |
| Market Cap    | C\$36.54 million  |
| Current Yield | N/A               |
| P/E (forward) | N/A               |
| P/B           | 0.95              |
| YoY Return    | -71.5%            |
| YoY TSX-V     | -68.6%            |

\*See back of report for rating and risk definitions



#### Q4-2008 Highlights

- CIBT's share price is down 72% YOY. The company reported strong organic growth and an improvement in margins in the quarter ended June 2008. Also, we believe, current economic conditions are favorable for education providers like CIBT. We believe the drop in share price was mostly due to the ongoing financial crisis, and does not reflect the company's fundamentals.
- In the past 10 months, the company completed four acquisitions and signed a LOI to manage administrative and financial functions of a \$100 million university.
- We were disappointed with the most recent enrollment update that the company disclosed on October 7, 2008; which has prompted us to lower our revenue forecasts for FY2009+. However, the acquisition of SSCC continues to benefit CIBT significantly, in terms of both revenues and margins.
- The company continues to be in an excellent cash position, and we do not believe the company needs to raise additional capital in the next 12 months (unless they plan to pursue major acquisitions). The company will be conducting a normal course issuer bid to purchase up to 1 million of its common shares.

#### Key Financial Data

| (in U.S.\$)    | 2005      | 2006 (6 mo) | 2007       | 2008E (14 mo) | 2009E      |
|----------------|-----------|-------------|------------|---------------|------------|
| Revenues       | 4,072,180 | 2,323,368   | 7,487,716  | 33,203,674    | 42,845,763 |
| EBITDA         | (819,316) | 436,124     | 666,322    | (197,478)     | (78,766)   |
| EBITDA Margin  | -20.1%    | 18.8%       | 8.9%       | -0.6%         | -0.2%      |
| Net Income     | (296,097) | 275,414     | 196,160    | (713,727)     | (870,683)  |
| EPS (Basic)    | (0.01)    | 0.01        | 0.01       | (0.01)        | (0.01)     |
| Assets         | 6,148,232 | 7,799,064   | 19,909,697 | 56,541,919    | 54,795,483 |
| Debt to Assets | 0.2%      | 1.4%        | 25.5%      | 1.4%          | 1.4%       |
| ROE            | -14.8%    | 6.7%        | 1.4%       | -1.6%         | -2.0%      |

FY2005 (YE - Dec 31);FY2006-07 (YE - Jun 30);FY2008-09 (YE - Aug 31)

CIBT Education Group (CIBT) is a diversified investment, operations and management firm, with subsidiaries operating in the education and advertising sectors. While the company's advertising business focuses on the Canadian and U.S. markets, the education business is primarily focused in China and Canada.

***Softening economy in China will benefit its education sector***

Before we review the company's latest financial results, we take a quick look at some recent statistics pertaining to the education sector in China.

According to the Ministry of Education (MOE), China had 14 million and 5 million fresh high school and college graduates, respectively in 2007. According to the China Education International Cooperation Group, those numbers are expected to reach 14.8 million and 5.5 million this year. About 20% of college graduates had failed to find a job by the end of last year.

In September 2008, China cut interest rates for the first time in six years, and lowered the reserve ratio for smaller banks by 1%, reflecting signs of a slowdown in growth in the country. China's GDP grew by 10.4% in the first half of 2008, which was 1.8% lower than the same period of last year. Growth in Q3 slowed to 9%, the slowest pace in more than five years. The IMF recently lowered China's GDP growth rate for 2009, by 50 basis points to 9.3%. We believe a softening economy will put upward pressure on unemployment rates; and rising unemployment rates in turn will positively impact the nation's education sector as more people tend to go back to school to improve their skill set. We believe, vocational school operators will benefit the most in this situation due to an obvious increase in demand for vocational programs instead of 3-4 year degree programs. Therefore, we believe, the ongoing financial crisis and global economic slowdown should benefit education providers like CIBT.

Another positive piece of news for CIBT is that Chinese students traveling abroad for studies is estimated to hit a record high of 0.20 million this year (US, Britain, Australia and Canada being the top destinations), which indicates that the demand for foreign education in China continues to be strong.

***Further Expansion in the Philippines***

In August 2008, the company announced they signed a cooperation agreement with Far Eastern University (FEU) to establish a CIBT Education Center within FEU. Established in 1928, FEU has about 30,000 undergraduate students and is one of the largest healthcare universities in the Philippines. CIBT's Education Center will offer Resident Care Attendant and Practical Nursing programs using Sprott-Shaw's curriculum. We believe these Education Centers will be able to attract students due to the following reasons:

- These programs allow students to earn a Western degree.
- Students will have full access to all clinical facilities, dormitory and other student services available at FEU.
- Courses will be taught in English, which will equip students to seek job opportunities abroad.
- CIBT will assist graduates in seeking employment opportunities in the healthcare sector in Canada and the U.S.
- CIBT will also assist pre-qualified candidates in preparing for licensing exams in Canada.

We had mentioned in our previous reports that one of the main benefits of the acquisition of SSCC is that it allows CIBT to offer their own career and vocational programs (Sprott offers over 140 programs) to their campuses. This is important as it offers an excellent opportunity to increase margins, as the company will not have to share revenues (eliminate licensing fee to existing partners), like it currently does with its education partners in North America.

The company has plans to expand to other parts of Asia, including India, Malaysia, South Korea, Thailand and Vietnam, using the same model.

***Sprott-Shaw signs LOI to manage Quest's admin and financial functions***

In August 2008, CIBT announced that they have signed a LOI with Quest University Canada (located in Squamish, BC) to manage its administrative and financial functions. CIBT will be paid a management fee in exchange for the services provided. This relationship with Quest has two benefits for CIBT:

- Certain academic and administrative expenses of Quest can be consolidated with other SSCC colleges to reduce costs
- CIBT will also be able to use Quest's \$100 million facility to help recruit students and increase enrollment in their 2+2 bachelor degree program

***Acquires Assets of Career and Language Training Schools***

In September 2008, the company completed the acquisition of Concordia Career College and Modus ESL School of Vancouver, BC. Both Concordia and Modus are career and English language schools with a special focus on the Korean, Japanese and Latin American markets.

We believe the main objective of this transaction is that it gives CIBT presence in those markets that they previously did not have any presence. We believe, CIBT will look to take Concordia and Modus's curriculum (just like they do with Sprott's curriculum) and establish CIBT Education Centers in these markets.

CIBT did not disclose the acquisition cost or potential revenues from these acquisitions. Therefore, we are not in a position to comment on the economics of the transactions.

***Reports strong growth in revenues and improvement in gross margins***

CIBT changed its fiscal year end from June 30th to August 31<sup>st</sup>, to coincide with the year end of SSCC, and to coincide with the fiscal year end date commonly used in the industry. Therefore, FY2008 will be a 14 month period ending August 31, 2008. This report reviews the company's most recent financials for the 12 month period ending June 30, 2008.

Total revenues from CIBT in the quarter ended June 2008, increased by 492% YOY, from \$2.01 million to \$11.92 million; 99% of the growth came from the acquisition of SSCC in December 2007. For the 12 month period ended June 2008, revenues increased by 293% YOY, from \$6.19 million to \$24.37 million; 92% of the growth was a result of the SSCC acquisition.

Organic revenue growth was pretty much in line with our expectations as revenues grew by 4.5% YOY in the latest quarter (from \$2.01 million to \$2.10 million). For the 12 month period ended June 2008, organic growth was 23% YOY. Revenues from SSCC well exceeded our forecasts as they generated \$9.80 million in the 3 month period ended June 2008. A summary of the results is shown below.

|       | 3 mo ended  |             |              | 12 mo ended |              |              |
|-------|-------------|-------------|--------------|-------------|--------------|--------------|
|       | Jun-07      | Jun-08      | Growth (YOY) | Jun-07      | Jun-08       | Growth (YOY) |
| CIBT  | \$2,012,045 | \$2,101,712 | 4.5%         | \$6,194,085 | \$7,611,816  | 22.9%        |
| SSCC* | n.a.        | \$9,800,648 | n.a.         | n.a.        | \$16,754,350 | n.a.         |

\* Revenues during Dec 17, 2007 - Jun 30, 2008

It is important to note that deferred revenues changed little QoQ (dropping from \$10.77 million to \$9.67 million); which is highly encouraging.

**Enrollment update** – On October 7, 2008, the company put out a press release updating their enrollment figures. As of September 30, 2008, total student enrollments were 6,172 students versus 3,420 a year ago. These figures were below our expectations as we were expecting the figure to be around 6,800 (Sprott – 3,500 students + CIBT – 3,300 students). On a positive note, the company disclosed that their Weifang Wyotech campus, in Shandong province, experienced triple digit percentage growth with record enrollment figures since its inception in 2006. Also, the Auto Technician program at CIBT Wyotech Automotive Institute in Weifang reported the highest enrollment YOY growth of 161%. Since we do not know the actual student enrollments in these programs, we are not in a position to precisely estimate the significance of these statistics on the company's revenues in FY2008.

We have raised our revenue forecasts for SSCC in FY2008. Our revised revenue forecast for CIBT (including SSCC and all subsidiaries) in FY2008 is \$30.79 million (up from \$24.44 million). Lower student enrollment figures as of September 30, 2008, have prompted us to lower our revenue forecast for FY2009, from \$42.55 million to \$40.57 million.

Gross margins showed a significant improvement in the latest quarter, as they increased from 40% to 71%. In the 12 month period, gross margins were up from 46% to 63%. The improvement came from both organic revenues (increased from 46% to 55% in the 12 month period) and SSCC (gross margin was 66% since acquisition). We have raised our margins forecasts to 62.8% (up from 52.8%) in FY2008 and 63.4% (up from 62.2%) in FY2009.

***IRIX reports  
4.2% YOY  
revenue  
growth***

IRIX revenues grew by 4.2% YOY in the quarter ended June 2008, from \$0.54 million to \$0.57 million. For the 12 month period, revenues were up by 60% YOY, from \$1.29 million to \$2.07 million. Gross margins in the 12 month period were 43.5%, down slightly from 44% in the comparable period in the previous year.

| IRIX          | 3 mo ended |           |              | 12 mo ended |             |              |
|---------------|------------|-----------|--------------|-------------|-------------|--------------|
|               | Jun-07     | Jun-08    | Growth (YOY) | Jun-07      | Jun-08      | Growth (YOY) |
| Revenues      | \$543,834  | \$566,432 | 4.2%         | \$1,293,631 | \$2,068,875 | 59.9%        |
| Gross Margins | 10.5%      | 43.5%     |              | 44.0%       | 43.5%       |              |

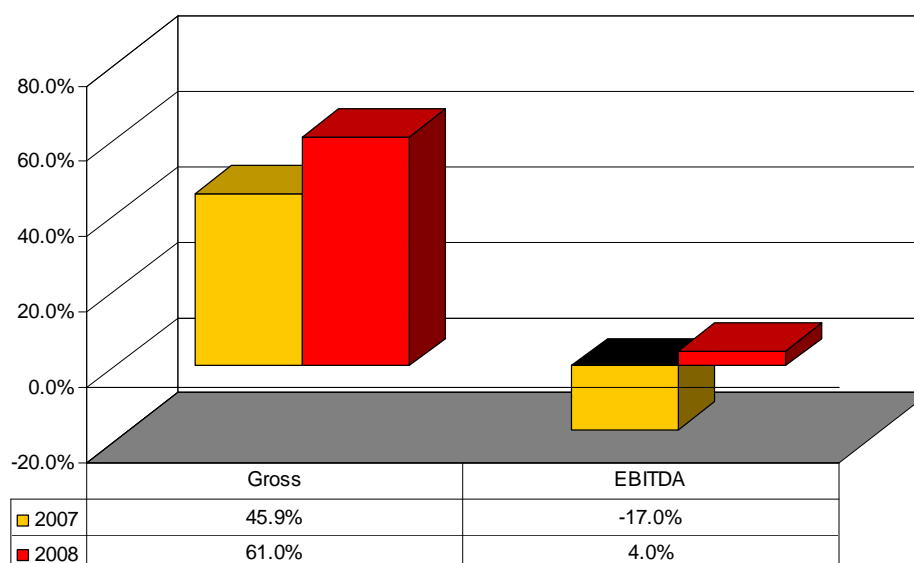
We have raised our revenue forecasts for FY2008, and FY2009, from \$2.26 million to \$2.41 million, and from \$2.13 million to \$2.28 million, respectively.

**Normalized  
margins  
improve**

The company recorded \$7.66 million in general and administrative expenses in the latest quarter compared to \$4.04 million in Q3-2008. The increase was primarily attributed to an increase in salaries (as they doubled from \$1.33 million to \$2.99 million), advertising expenses (from \$0.84 million to \$2.26 million) and rent (from \$0.71 million to \$1.02 million). This increase was more than what we had expected and as a result, we have raised our forecasts for FY2008 and FY2009.

In the quarter ended June 2008, EBITDA improved YOY from  $-\$0.65$  million to  $\$0.72$  million. Normalized EBITDA improved from  $-\$0.80$  million to  $\$1.12$  million, and normalized EBITDA margins improved from  $-32\%$  to  $9\%$  in the quarter ended June 30, 2008. In the 12 month period, normalized EBITDA margins improved from  $-17\%$  to  $4\%$ . These are significant improvements and we are highly encouraged by these results.

**Normalized Margins (12 mo ended June)**



**EBITDA margins improved** due to a significant improvement in gross margins and a drop in general and administrative expenses as a percentage of sales (from 63% to 57% in the 12 mo period, and 65% to 61% in the 3 mo period). Note that although G&A expenses increased significantly in dollar terms, they dropped as a percentage of sales.

The company posted a net loss of  $\$0.03$  million (EPS:  $-\$0.00$ ) in the quarter versus  $\$0.90$  million (EPS:  $-\$0.02$ ) in the comparable period in the previous year. In the 12 month period, the company posted a net loss of  $\$1.33$  million (EPS:  $-\$0.02$ ) versus a net profit of

\$0.20 million (EPS: \$0.01) in the comparable period in the previous year. The company had recorded \$2.13 million in revenues from investment income (from trading NXMR shares) and consulting income in FY2007; which explains why the company had posted net income in that period.

In Q2-2008, the company had recorded a gain of \$2.92 million as a result of the issuance of 5.36 million shares to Shane. The company however lowered that figure to \$1.98 million in their latest financials. This decrease in recorded gains almost offset the increase in our EBITDA forecasts. As a result, our revised EPS forecast for FY2008 changed little from our previous estimate.

Our revised forecast for FY2008 is a net loss of \$0.71 million (EPS: -\$0.01), up from a net loss of \$0.93 million. We have lowered our EPS forecast for FY2009, from net income of \$2.90 million (EPS: \$0.04) to a net loss of \$0.87 million (EPS: \$0.01) as we raised our G&A expense forecasts and lowered our revenue forecast for FY2009.

**Positive  
operating  
cash flows;  
Strong  
Balance  
Sheet**

In the quarter ended June 2008, CIBT generated \$0.19 million from operations (they had spent \$0.76 mm on operations in the comparable period in the previous year), and spent \$0.26 million on CAPEX (\$0.12 million in the comparable period in the previous year). The company also used cash to buy back shares (\$1.22 mm in the quarter) and lease payments (\$0.72 million).

The cash position dropped QoQ as a result, from \$10.47 mm to \$9.60 mm. However, working capital, the current ratio and debt to assets improved QoQ as shown below.

| Liquidity & Capital Structure | 2005A       | 2006A       | 2007A        | 2008<br>Q3  | 2008<br>Q4  |
|-------------------------------|-------------|-------------|--------------|-------------|-------------|
| Working Capital               | \$1,187,478 | \$2,326,999 | \$11,561,270 | \$4,030,750 | \$4,203,657 |
| Current Ratio                 | 1.36        | 1.98        | 5.42         | 1.29        | 1.30        |
| Debt / Assets                 | 0.2%        | 1.4%        | 25.5%        | 1.8%        | 1.6%        |

The company continues to be in an excellent cash position, and we do not believe the company needs to raise additional capital in the next 12 months (unless they plan to pursue major acquisitions).

The company announced on October 9, 2008, that the TSX Venture Exchange has accepted the filing of the company's notice of intention to conduct a normal course issuer bid (to expire on October 8, 2009) to purchase up to 1 million of its common shares representing approximately representing 1.5% of its outstanding common shares. In the past 12 months, the company had repurchased 1.5 million shares. At the current share price, repurchasing 1 million shares implies a cash outlay of \$1.75 million. The company is in a good cash position, so we see this as a good move by the company's management.

**Stock Options  
and Warrants**

We estimate the company currently has 4.42 million stock options outstanding (0.42 million are currently 'in-the-money'), with a weighted average exercise price of C\$1.17 and maturity dates between January 2009 and June 2012. The company also has 5.42 million warrants (all of them are currently 'out-of-the-money') with a weighted average

exercise price of C\$1.40, and maturity periods between February 2009 and January 2010.

### Valuation

We have lowered our DCF valuation on the company from C\$2.85 per share to C\$2.55 per share as we lowered our revenue and EPS forecasts for FY2009+.

| DCF Valuation<br>in U.S\$    | 2008F          | 2009F        | 2010F        | 2011F        | 2012F           |
|------------------------------|----------------|--------------|--------------|--------------|-----------------|
| <b>FFO</b>                   | 986,188        | 1,162,792    | 7,597,615    | 7,832,945    | 9,979,178       |
| -increase in w/c             | 985,662        | (2,922,421)  | (293,282)    | (284,213)    | (347,779)       |
| <b>=CFO</b>                  | 1,971,850      | (1,759,628)  | 7,304,332    | 7,548,731    | 9,631,399       |
| -capex (incl. Inv. Inc.)     | (873,179)      | (1,900,000)  | (2,050,000)  | (1,700,000)  | (2,100,000)     |
| <b>=FCF</b>                  | 1,098,671      | (3,659,628)  | 5,254,332    | 5,848,731    | 7,531,399       |
| <b>PV</b>                    | 1,098,671      | (3,267,525)  | 4,188,722    | 4,163,011    | 4,786,340       |
|                              | <b>2013F</b>   | <b>2014F</b> | <b>2015F</b> | <b>2016F</b> | <b>Terminal</b> |
| <b>FFO</b>                   | 12,062,309     | 14,429,221   | 17,098,375   | 19,849,232   | 22,661,848      |
| -increase in w/c             | (421,369)      | (469,665)    | (523,884)    | (545,832)    | (567,802)       |
| <b>=CFO</b>                  | 11,640,940     | 13,959,557   | 16,574,491   | 19,303,400   | 22,094,046      |
| -capex (incl. Inv. Inc.)     | (2,100,000)    | (2,100,000)  | (1,700,000)  | (1,300,000)  | (500,000)       |
| <b>=FCF</b>                  | 9,540,940      | 11,859,557   | 14,874,491   | 18,003,400   | 21,594,046      |
| <b>PV</b>                    | 5,413,786      | 6,008,421    | 6,728,464    | 7,271,271    | 96,905,256      |
| Discount Rate                | 12.0%          |              |              |              |                 |
| Terminal Growth              | 3.0%           |              |              |              |                 |
| Present Value (in US\$)      | \$ 133,296,417 |              |              |              |                 |
| Cash - Debt (US\$)           | \$ 8,721,339   |              |              |              |                 |
| Fair Value (US\$)            | \$ 142,017,756 |              |              |              |                 |
| Fair Value (C\$)             | \$ 163,320,419 |              |              |              |                 |
| Shares O/S (diluted)         | 64,109,297     |              |              |              |                 |
| <b>Value per share (C\$)</b> | <b>\$2.55</b>  |              |              |              |                 |

The following table shows the company's valuation metrics compared to a few major industry players.

**Relative Valuation - based on forward multiples**

| (Market cap is in \$mm)                       | Market Cap | P/S         | P/EBITDA        | P/E            | P/Tang. BV  |
|---|------------|-------------|-----------------|----------------|-------------|
| Apollo Group                                  | 9,178      | 2.95        | 11.51           | 25.56          | 18.29       |
| DeVry Inc.                                    | 3,228      | 2.41        | 12.69           | 20.50          | 8.38        |
| ITT Educational Services                      | 2,719      | 2.74        | 8.27            | 14.51          | 29.22       |
| Strayer Education                             | 2,559      | 6.53        | 18.96           | 31.73          | 14.16       |
| New Oriental Education & Technology Group Inc | 2,155      | 7.82        | 27.64           | 34.37          | 7.31        |
| Career Education                              | 1,275      | 0.74        | 7.55            | 22.17          | 2.60        |
| Corinthian College                            | 1,081      | 0.89        | 8.19            | 21.81          | 5.69        |
| Capella Education Co                          | 665        | 2.45        | 12.74           | 23.61          | 5.37        |
| Universal Technical Institute                 | 360        | 1.04        | 12.03           | 43.19          | 4.19        |
| <b>CIBT Education Group</b>                   | <b>37</b>  | <b>0.85</b> | <b>(463.93)</b> | <b>(41.97)</b> | <b>5.66</b> |
| <b>Average*</b>                               |            | <b>1.76</b> | <b>10.43</b>    | <b>24.48</b>   | <b>5.60</b> |

\*does not include outliers

Source: Reuters and FRC

As shown in the table, MBA shares are undervalued based on the average P/S, but is overvalued based on the average P/Tangible BV. P/E and P/EBITDA multiples are negative based on our FY2009 estimates. We continue to believe that our comparables valuation based on FY2009E multiples does not reflect the growth potential of the company, and as a result, we have continued to base our fair value estimate on the company based on our DCF valuation only.

**Rating**

**Therefore, based on our revised valuation models and review of the company's latest results, we reiterate our BUY rating, but lower our fair value estimate on the company from C\$2.85 per share to C\$2.55 per share.**

**Risks**

The following risks may cause our estimates to differ from actual results (not exhaustive):

**Change in Chinese government policy:** Any change in the Chinese government's policy of encouraging private and foreign players could have an adverse impact on the company.

**Downturn in advertising industry may affect growth:** A downturn in the advertising industry, which is highly dependent on economic conditions, may affect the growth prospects of IRIX.

**Change in exchange rates:** The company is susceptible to unfavorable exchange rate



fluctuations. Currently, the company does not adopt any measures to reduce its exposure to foreign currency risks.

**Liquidity problems:** As a small cap stock, investors may face liquidity problems.

## Appendix

### CONSOLIDATED STATEMENTS OF OPERATIONS

(in U.S. dollars)

FY2005 (YE - Dec 31);FY2006-07 (YE - Jun 30);FY2008-09 (YE - Aug 31)

|   | 2005A            | 2006A            | 2007A            | 2008F              | 2009F             |
|---|------------------|------------------|------------------|--------------------|-------------------|
|   |                  | 6 mo             |                  | 14 mo              |                   |
| <b>REVENUES</b>   |                  |                  |                  |                    |                   |
| Educational CIBT  | 2,757,464        | 1,763,953        | 6,194,085        | 30,789,987         | 40,570,000        |
| Design and advertising IRIX                                   | 1,314,716        | 559,415          | 1,293,631        | 2,413,688          | 2,275,763         |
| <b>Total Revenues</b>   | <b>4,072,180</b> | <b>2,323,368</b> | <b>7,487,716</b> | <b>33,203,674</b>  | <b>42,845,763</b> |
| <b>DIRECT COSTS</b>   |                  |                  |                  |                    |                   |
| Educational CIBT  | 1,509,174        | 1,226,013        | 3,324,718        | 11,445,445         | 14,833,500        |
| Design and advertising IRIX                                   | 683,186          | 271,563          | 724,386          | 1,364,778          | 1,251,669         |
| <b>Total Direct Costs</b>                                     | <b>2,192,360</b> | <b>1,497,576</b> | <b>4,049,104</b> | <b>12,810,224</b>  | <b>16,085,169</b> |
| <b>Gross Profit</b>   | <b>1,879,820</b> | <b>825,792</b>   | <b>3,438,612</b> | <b>20,393,451</b>  | <b>26,760,593</b> |
| Consulting Income   | 117,056          | 248,990          | 723,624          | 290,211            | -                 |
| Investment income from sale of marketable securities          | 301,116          | 1,108,073        | 1,402,101        | 6,198              | -                 |
| <b>Total Net revenues</b>                                     | <b>2,297,992</b> | <b>2,182,855</b> | <b>5,564,337</b> | <b>20,689,860</b>  | <b>26,760,593</b> |
| <b>EXPENSES</b>   |                  |                  |                  |                    |                   |
| Stock-based compensation                                      | 356,016          | 123,004          | 187,990          | 1,655,411          | 1,241,559         |
| General and administrative                                    | 2,761,292        | 1,623,727        | 4,710,025        | 19,231,927         | 25,597,801        |
| <b>Total Expenses</b>   | <b>3,117,308</b> | <b>1,746,731</b> | <b>4,898,015</b> | <b>20,887,338</b>  | <b>26,839,359</b> |
| <b>EBITDA</b>   | <b>(819,316)</b> | <b>436,124</b>   | <b>666,322</b>   | <b>(197,478)</b>   | <b>(78,766)</b>   |
| Amortization  | 178,815          | 103,301          | 256,387          | 641,476            | 793,419           |
| <b>EBIT</b>   | <b>(998,131)</b> | <b>332,823</b>   | <b>409,935</b>   | <b>(838,955)</b>   | <b>(872,185)</b>  |
| Non-Recurring Consulting and Other Income                     |                  |                  |                  | 208,063            | -                 |
| Impairment of Goodwill  |                  |                  |                  |                    | -                 |
| Write-off of deferred finance fees                            | (18,386)         |                  | (134,102)        | (2,047,471)        | -                 |
| Interest on long-term debt                                    |                  |                  | (129,562)        | (347,567)          |                   |
| Interest Income   | 14,293           | 8,206            | 196,548          |                    |                   |
| Loss on disposal of property, plant and equipment             | (10,366)         | (7,171)          | (8,430)          | -                  | -                 |
| Gain of disposal of subsidiaries                              |                  |                  |                  | -                  | -                 |
| Gain(Loss) resulting from change in ownership of subsidiaries | 508,005          | (81,294)         | 128,301          | 1,980,096          | -                 |
| Non-controlling interests in loss for the year                | (86,344)         | 22,850           | (51,451)         | (3,765)            | 1,502             |
| <b>EBT</b>  | <b>(590,929)</b> | <b>275,414</b>   | <b>411,239</b>   | <b>(1,049,599)</b> | <b>(870,683)</b>  |
| Operating loss from discontinued operations                   | (107,509)        | -                | -                | -                  | -                 |
| Gain on sale of discontinued operations                       | 402,341          | -                | -                | -                  | -                 |
| <b>Net Profit (Loss) before tax</b>                           | <b>(296,097)</b> | <b>275,414</b>   | <b>411,239</b>   | <b>(1,049,599)</b> | <b>(870,683)</b>  |
| Taxes   | -                | -                | 215,079          | (335,872)          | -                 |
| <b>Net Profit (Loss)</b>                                      | <b>(296,097)</b> | <b>275,414</b>   | <b>196,160</b>   | <b>(713,727)</b>   | <b>(870,683)</b>  |
| Surplus(Deficit), Beginning of Year                           | (14,691,749)     | (14,987,846)     | (14,712,432)     | (14,516,272)       | (15,229,999)      |
| Surplus(Deficit), End of Year                                 | (14,987,846)     | (14,712,432)     | (14,516,272)     | (15,229,999)       | (16,100,682)      |
| <b>EPS</b>  | <b>(0.01)</b>    | <b>0.01</b>      | <b>0.01</b>      | <b>(0.01)</b>      | <b>(0.01)</b>     |

**CONSOLIDATED BALANCE SHEETS**

(in U.S. dollars)

FY2005 (YE - Dec 31);FY2006-07 (YE - Jun 30);FY2008-09 (YE - Aug 31)

|  | 2005A            | 2006A            | 2007A             | 2008F             | 2009F             |
|--|------------------|------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>                                    |                  |                  |                   |                   |                   |
| <b>CURRENT</b>                                   |                  |                  |                   |                   |                   |
| Cash and short-term investments                  | 2,420,505        | 2,744,630        | 11,734,512        | 10,122,385        | 6,443,996         |
| Accounts receivable                              | 659,525          | 914,288          | 651,300           | 6,972,772         | 7,498,008         |
| Prepays and other                                | 602,865          | 169,748          | 268,741           | 3,984,441         | 4,284,576         |
| Marketable securities (NXMR)                     | 779,899          | 876,308          | 1,522,703         | 175,298           | 175,298           |
| <b>Total Current Assets</b>                      | <b>4,462,794</b> | <b>4,704,975</b> | <b>14,177,256</b> | <b>21,254,896</b> | <b>18,401,879</b> |
| Due from Related Parties                         |                  | 126,510          | -                 | -                 | -                 |
| Property and Equipment                           | 705,196          | 887,747          | 1,069,182         | 3,455,191         | 4,339,412         |
| Intangible Assets                                | 363,482          | 363,479          | 349,659           | 322,019           | 294,379           |
| Goodwill   | -                |                  | 4,150,046         | 31,271,259        | 31,271,259        |
| Investment in NXMR                               | 504,971          | 596,710          | -                 |                   |                   |
| Promissory Note Receivable                       |                  |                  | -                 | -                 |                   |
| Deferred Cur. Dev. Costs & Other Assets          | 111,789          | 247,423          | 163,554           | 238,554           | 488,554           |
| <b>Total Assets</b>                              | <b>6,148,232</b> | <b>6,926,844</b> | <b>19,909,697</b> | <b>56,541,919</b> | <b>54,795,483</b> |
| <b>LIABILITIES</b>                               |                  |                  |                   |                   |                   |
| <b>CURRENT</b>                                   |                  |                  |                   |                   |                   |
| Accounts payable and accrued liabilities         | 1,031,660        | 1,289,070        | 1,503,364         | 1,921,534         | 5,972,152         |
| Deferred revenue                                 | 1,274,124        | 385,431          | 423,248           | 9,075,361         | 2,927,694         |
| Unearned consulting fees                         | 851,509          | 633,144          | 276,923           |                   | -                 |
| Lease obligation                                 | 5,184            | 16,972           | 17,946            | 18,761            | 16,467            |
| Convertible debentures and other loans payable   | -                |                  | -                 | -                 | -                 |
| Income Tax Payable                               |                  |                  | 230,043           | 230,043           | 230,043           |
| Current portion of the long-term debt            |                  |                  | 80,375            |                   |                   |
| Due to related parties                           | 112,839          | 53,359           | 84,087            | -                 | -                 |
| <b>Total Current Liabilities</b>                 | <b>3,275,316</b> | <b>2,377,976</b> | <b>2,615,986</b>  | <b>11,245,698</b> | <b>9,146,356</b>  |
| Lease Obligation                                 | 9,515            | 78,622           | 64,677            | 750,675           | 734,208           |
| Long-term Debt                                   |                  |                  | 2,952,530         |                   |                   |
| Loan Payable                                     |                  |                  |                   |                   |                   |
| Non-controlling interests                        | 862,867          | 836,901          | 617,372           | 1,151,835         | 1,150,333         |
| <b>SHAREHOLDERS EQUITY</b>                       |                  |                  |                   |                   |                   |
| Share capital                                    | 16,658,208       | 17,977,570       | 26,851,807        | 57,259,635        | 57,259,635        |
| Unrealized Foreign Exchange Losses               | (162,730)        | (180,570)        | 525,172           | 525,172           | 525,172           |
| Contributed surplus                              | 729,714          | 844,292          | 2,180,249         | 4,277,188         | 5,518,747         |
| Treasury shares held                             | (236,812)        | (295,515)        | (1,381,824)       | (2,084,683)       | (2,084,683)       |
| Accumulated Comprehensive loss                   |                  |                  |                   | (1,353,603)       | (1,353,603)       |
| Deficit  | (14,987,846)     | (14,712,432)     | (14,516,272)      | (15,229,999)      | (16,100,682)      |
| <b>Total shareholders' equity (deficiency)</b>   | <b>2,000,534</b> | <b>3,633,345</b> | <b>13,659,132</b> | <b>43,393,711</b> | <b>43,764,586</b> |
| <b>Total Liabilities and Shareholders Equity</b> | <b>6,148,232</b> | <b>6,926,844</b> | <b>19,909,697</b> | <b>56,541,919</b> | <b>54,795,483</b> |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in U.S. dollars)

FY2005 (YE - Dec 31);FY2006-07 (YE - Jun 30);FY2008-09 (YE - Aug 31)

|  | <b>2005A</b>       | <b>2006A</b>       | <b>2007</b>        | <b>2008F</b>       | <b>2009F</b>       |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
|  |                    | <b>6 mo</b>        |                    | <b>14 mo</b>       |                    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |                    |                    |                    |                    |                    |
| Net Profit (Loss) for the year                                   | (590,929)          | 275,414            | 196,610            | (713,727)          | (870,683)          |
| Adjusted for items not involving cash:                           |                    |                    |                    |                    |                    |
| - amortization   | 248,284            | 106,203            | 277,128            | 641,476            | 793,419            |
| -amortization of consulting revenue                              | (117,056)          | (248,990)          | (723,624)          | (290,211)          | -                  |
| - amortization of deferred curriculum costs                      |                    |                    |                    |                    |                    |
| -gain on sale of marketable securities                           | (301,116)          | (1,108,073)        | (1,402,101)        | (6,198)            | -                  |
| - stock-based compensation                                       | 356,016            | 123,004            | 187,990            | 1,655,411          | 1,241,559          |
| - non-cash interest and finance fees & others                    | -                  | (1,510)            | 70,832             | -                  | -                  |
| - write-off of deferred finance fees                             |                    | -                  | 68,799             | 2,047,471          | -                  |
| - loss on disposal of property, plant and equipment              | 10,366             | 7,171              | 8,430              | -                  | -                  |
| - loss(gain) on CIBT share issuances and purchases               | (508,005)          | 81,294             | (128,301)          | (1,980,096)        | -                  |
| - non-controlling interests                                      | 86,344             | (22,850)           | 51,451             | 3,765              | (1,502)            |
| - non-cash foreign exchange gain                                 | (26,074)           | 2,133              | (110,782)          | -                  | -                  |
| <b>Funds From Operations</b>                                     | <b>(842,170)</b>   | <b>(786,204)</b>   | <b>(1,504,018)</b> | <b>1,357,891</b>   | <b>1,162,792</b>   |
| Net changes in non-cash working capital items                    | (187,950)          | (417,100)          | 624,611            | (966,889)          | (2,922,421)        |
| Discontinued Operations  | (233,896)          | -                  | -                  | -                  | -                  |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                     | <b>(1,264,016)</b> | <b>(1,203,304)</b> | <b>(879,407)</b>   | <b>391,002</b>     | <b>(1,759,628)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |                    |                    |                    |                    |                    |
| Acquisition and PP&E   | (331,209)          | (270,744)          | (357,209)          | (9,500,000)        | (1,650,000)        |
| Cash acquired on reverse takeover of SEG Equities                |                    | -                  |                    | -                  | -                  |
| Proceeds from sale of SEG shares                                 | 450,000            | -                  |                    | -                  | -                  |
| Promissory Note Receivables                                      |                    |                    | 287,214            |                    |                    |
| Sale and acquisition of CIBT shares                              | (113,619)          | (232,708)          | (21,183)           | -                  | -                  |
| Net Cash used in marketable securities transaction               | (21,254)           | 991,056            | 1,707,416          | -                  | -                  |
| CIBT curriculum development costs                                | (46,318)           | (14,326)           | (36,411)           | (75,000)           | (250,000)          |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                     | <b>(62,400)</b>    | <b>473,278</b>     | <b>1,579,827</b>   | <b>(9,575,000)</b> | <b>(1,900,000)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                      |                    |                    |                    |                    |                    |
| Cash from equity and debt issuances                              | 387,554            | 1,310,936          | 8,373,225          | 8,732,528          | -                  |
| Acquisition of the Company's shares into treasury, net           | (151,010)          | (58,703)           | (936,550)          | (702,859)          | -                  |
| Advances (to) from related parties                               | 88,428             | (63,024)           | 11,890             | (84,087)           | -                  |
| Lease obligation repayments                                      | (8,903)            | (17,111)           | (17,257)           | (313,032)          | (18,761)           |
| Proceeds from shares issued to non-controlling interests in CIBT | 978,024            |                    | 117,602            | -                  | -                  |
| Proceeds from shares issued to non-controlling interests in AIMI |                    |                    |                    | 530,698            |                    |
| Restricted cash and other deposits                               |                    |                    |                    |                    |                    |
| Convertible debenture proceeds (repayments), net                 | -                  |                    |                    | (591,377)          | -                  |
| Funds from loan advances   |                    |                    | 978,553            |                    |                    |
| Deferred finance fees  | (25,886)           | (102,218)          | (971,813)          | -                  | -                  |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                        | <b>1,268,207</b>   | <b>1,069,880</b>   | <b>7,555,650</b>   | <b>7,571,871</b>   | <b>(18,761)</b>    |
| <b>Effects of Exchange Rate Changes in Cash</b>                  | <b>77,629</b>      | <b>(15,729)</b>    | <b>733,812</b>     |                    |                    |
| <b>INCREASE IN CASH FOR THE YEAR</b>                             | <b>19,420</b>      | <b>324,125</b>     | <b>8,989,882</b>   | <b>(1,612,127)</b> | <b>(3,678,389)</b> |
| CASH, BEGINNING OF THE YEAR                                      | 2,401,085          | 2,420,505          | 2,744,630          | 11,734,512         | 10,122,385         |
| <b>CASH, END OF THE YEAR</b>                                     | <b>2,420,505</b>   | <b>2,744,630</b>   | <b>11,734,512</b>  | <b>10,122,385</b>  | <b>6,443,996</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.

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**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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