

Capital Alliance Group Inc. (TSXV: CPT) – Impressive New Initiative – CIBT's Education Centers

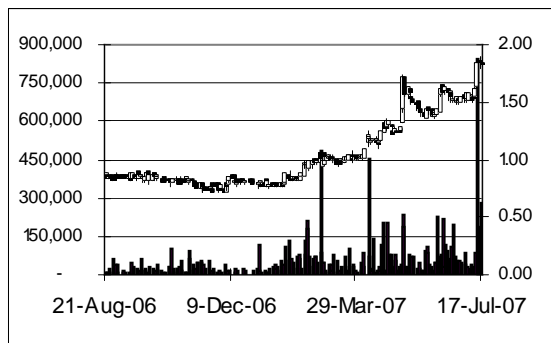
Sector/Industry: Education & Media Communication

www.cag-global.com

Market Data (as of July 19, 2007)

Current Price	C\$1.85
Fair Value	C\$1.60 (↑)
Rating*	HOLD (↓)
Risk*	3 (Average)
52 Week Range	\$0.72 – \$1.74
Shares O/S	47,840,073
Market Cap	C\$88.50 million
Current Yield	N/A
P/E (forward)	70.13
P/B	8.65
YoY Return	117.6%
YoY TSX-V	31.3%

*See back of report for rating and risk definitions



Q3-FY2007 Highlights

- In April 2007, the company announced their new strategy - expand through their new CIBT Education Centers. The new initiative, we believe, has the potential to significantly increase CIBT's distribution and network in China initially, and then in Southeast Asia.
- CIBT recently announced that they have signed agreements with three institutions to expand to Southern, Central and North-Eastern China.
- CAG's total revenues in Q3-2007 increased by 41.4% YOY. Revenues for the 9-month period in FY2007 increased by 83.3% YOY, from \$2.28 million to \$4.18 million. CIBT's revenue growth was primarily driven by a 21.2% YOY growth in student enrollments as of March 2007. All margins improved YOY in Q3-2007, and the 9-month period in FY2007. As a result of higher revenues and margins, the company achieved profitability in Q3-2007 versus net loss in Q3-2006.
- CAG has considerably improved its cash position in 2007, and at the end of Q3-2007, was in an excellent cash position. We expect the company to have about \$10.39 million cash on hand by the end of FY2007 (June 2007).
- CPT has risen by 77% since our last update. We have raised our fair value estimate, but have lowered our rating to HOLD from BUY based purely on valuation. Even though our outlook on the company continues to be positive, we prefer to adopt a conservative approach in our long-term revenue forecasts. We would like to see how effectively the company carries out its aggressive expansion plan before we make any revisions to our forecasts.

Key Financial Data - FY2004-05 (YE - Dec 31); FY2006-08 (YE - June 30)					
(in U.S.dollars)	2004 ^x	2005 ^x	2006 (6 mo) ^x	2007E	2008E
Revenues	3,840,149	4,934,260	2,647,014	6,575,783	9,244,162
EBITDA	(2,196,778)	(1,015,033)	546,294	1,102,039	369,635
EBITDA Margin	-57.2%	-20.6%	20.6%	16.8%	4.0%
Net Income	(2,643,993)	(358,771)	363,197	958,212	(278,333)
EPS (Basic)	(0.09)	(0.01)	0.01	0.02	(0.01)
Assets	4,961,244	7,227,595	7,799,064	17,225,199	20,244,064
Debt to Assets	2.5%	0.2%	1.2%	29.5%	25.0%
ROE	-130.1%	-15.0%	8.8%	10.9%	-2.5%

x - in C\$ (except Assets)

Capital Alliance Group (CAG) (TSX-V: CPT) 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 exclusively focused on China.

*New
Expansion
Strategy:
CIBT's
Education
Centers*

CIBT currently operates 13 campuses, including four campuses in Beijing, two campuses in Weifang, six satellite centers, and one teacher's training center. In April 2007, the company announced their new strategy - expand through their new CIBT Education Centers. The new initiative, we believe, has the potential to significantly increase CIBT's distribution and network in China initially, and then in Southeast Asia.

The new education centers (smaller in scale than a full size campus, and typically 2,000 to 3,000 sq. feet) will reduce the need for actual instructors in classrooms by employing video conferencing system technology as a partial form of instruction. With the help of video conferencing, instructors from the company's Beijing studio headquarters, will be able to deliver courses to six – eight classrooms (40 students each) simultaneously in real-time. The technology will allow interaction between the student and the teacher via live video conferencing. The images below show the proposed model of the education centers.



CIBT Education Center Model (Source: CIBT)

The centers will be equipped with the latest in technology including a state-of-the-art video conferencing system by Polycom connected via light-fiber dedicated line. CIBT informed us that they have already installed video conferencing systems in several CIBT locations, and are experiencing good results.

CIBT's initial plans are to open 50 new education centers, within recognized state-owned colleges or universities, by 2010, and then extend their reach to have up to 300 centers in China and other parts of Asia. Once completed, the extensive network of education centers will allow CIBT to offer its programs in a very cost-effective and efficient manner. Also, the education centers will allow other foreign education providers to utilize CIBT's wide network of centers and infrastructure. CIBT's goal is build the largest Education Network in China, with their education centers in every other city in the country.

CIBT recently signed three agreements to expand to new locations, and one agreement to open an additional campus in East Beijing. All four agreements were announced in the past 40 days.

- **Expands to Southern China (first education center):** CIBT announced in June 2007, that they signed an agreement with an institution in Guangdong Province, Southern China (Nanhua College of Industry and Commerce) to set up a CIBT Education Center. Nanhua College has about 7,000 full-time students, and graduates had an employment rate of 98.54% (one of the highest employment rates in the province).
- **Expands to Central China:** CIBT also announced that they signed an agreement with Hangzhou Jiangnan College in Hangzhou City, Zhejiang Province, in Central China. Forbes magazine ranked Hangzhou the number one city in China for business in 2004, 2005, and 2006. The agreement will allow CIBT to offer various CIBT courses including its overseas studies 2+2 and 1+1 program through an alliance campus.
- **Expands to North-Eastern China –** On July 5, 2007, the company announced that they signed an agreement with Tianjin University to establish a CIBT Education Center and to deliver various CIBT programs at Tianjin University. With this new agreement, CIBT will have a presence in the three largest cities in China – Beijing, Guangzhou and now Tianjin. Tianjin University, which consists of 12 schools offering 43 specialties, has over 20,000 student enrollments.
- **Additional Campus in East Beijing:** CIBT signed an agreement with Beijing University of Technology to expand to a fourth location in East Beijing. The agreement will allow CIBT to offer courses and establish an Education Center in East Beijing.

CIBT currently has 17 new locations under negotiation, and their goal is to have 50 locations by 2010, and 300 centers by 2015. The Asia Pacific Foundation of Canada recently featured the company as a success story in a case study. We continue to maintain our positive outlook on foreign education providers in China. The following recently released statistics support our outlook.

- According to the International Monetary Fund (IMF), China's GDP is expected to grow at about 10% in 2007, and 2008, which means that the demand for labor will continue to stay high. Based on a recent report by McKinsey, a significant shortage of managers is expected in China in the next 10-15 years. According to McKinsey, over the next 10-15 years, companies will need 75,000 managers who can work effectively in global environments versus the currently available 3,000 - 5,000.
- During 1978-2005, about 25% of Chinese (232,900 of 933,400) who have gone abroad to study, have returned. According to China's Ministry of Education, in 2005, about 27,200 Chinese nationals chose to return to China to work after finishing schooling abroad, up 47.9% from the previous year. These figures reflect the increasing demand for foreign education in China.

*Files Form 20-F
for U.S.
Registration*

As a move to expand its shareholder base in the U.S., CAG filed a Form 20-F registration statement with the United States Securities and Exchange Commission (SEC) in May 2007, to register a class of shares with the SEC. We believe that the Form 20F filing with the SEC will serve as part of a listing application on the AMEX.

*Review of Q3-
2007 Results*

Q3-2007 revenues increased by 41.4% YOY: Revenues in Q3-2007 were \$2.13 million compared to \$1.51 million in Q3-2006, an increase of 41.4%. Revenues in the first 9 months of FY2007 increased by 74.7% YOY, from \$3.91 million to \$6.83 million. In the 9-month period in FY2007, 61.2% of revenues came from CIBT, 11.0% from IRIX, and 27.8% from consulting and the sale of NextMart (previously Sun New Media Inc) shares (OTCBB: NXMR).

Revenues and Gross Margin - CIBT: Revenues from CIBT increased by 52.7% YOY in Q3-2007, from \$1.01 million to \$1.55 million. However, they were slightly below our expectations. Revenues in the 9-month period in FY2007, increased by 83.3% YOY, from \$2.28 million to \$4.18 million. The table below shows CIBT's revenues and margins in Q3-2007, and the 9-month period in FY2007, compared to their comparable periods in the previous year.

CIBT	Quarter ended Mar 31			Nine months ended Mar 31		
	2006	2007	Growth (YOY)	2006	2007	Growth (YOY)
Revenues	1,014,734	1,549,371	52.7%	2,281,068	4,182,040	83.3%
Gross Margin	41.9%	42.6%		50.7%	49.6%	

Along with the significant increase in earned revenues YOY, deferred revenues also increased, from \$0.79 million at the end of Q3-2006, to \$1.82 million at the end of Q3-2007.

Revenue growth was primarily driven by a strong increase in student enrollments in FY2007. Student enrollments increased by 21.2% YOY, from 2,633 as of March 2006, to 3,192 as of March 2007. Student enrollments had increased by 64.3% YOY in March 2006.

Update on Weifang Acquisition: CIBT is expecting high growth in enrollments in 2007, as it completes the acquisition of a majority ownership in Weifang Commercial School (in Weifang City, Shandong Province of China), which has approximately 6,200 student enrollments. CIBT had received approval from the Weifang Education Bureau to proceed with the acquisition in November 2006, and is currently waiting for additional approvals from Shandong province and the State Assets Evaluation Committee. At this time, we are not sure when the acquisition will be completed.

Since Q3-2007 revenues were slightly lower than expected, we have lowered our revenue forecast for FY2007, from \$5.82 million to \$5.58 million. However, based on our positive outlook on the company, we have maintained our revenue forecasts for FY2008 at \$8.14 million, and raised our long-term revenue forecasts. The company's aggressive expansion plan, and the upside potential of their new education centers, were the primary drivers of the upward revision in our revenue forecasts.

Gross margins for CIBT in Q3-2007 increased slightly YOY, from 41.9% to 42.6%. Gross margins for the 9-month period in FY2007 were 49.6% (our annual forecast for FY2007 was 50%) compared to 50.7% in the comparable period in the previous year. Since margins were in line with our annual estimates, we have not made any changes in our gross margin forecasts.

Revenues and Gross Margin - IRIX: In Q3-2007, IRIX revenues dropped by 39.7% YOY, from \$0.30 million to \$0.18 million. In the first 9 months of FY2007, IRIX revenues dropped by 25.9% YOY, from \$1.01 million to \$0.75 million. IRIX's revenues had increased by 15.6% YOY in Q2-2007. The table below shows IRIX's revenues and margins in Q3-2007, and the 9-month period in FY2007, compared to their comparable periods in the previous year.

IRIX	Quarter ended Mar 31			Nine months ended Mar 31		
	2006	2007	Growth (YOY)	2006	2007	Growth (YOY)
Revenues	302,480	182,527	-39.7%	1,012,092	749,797	-25.9%
Gross Margin	52.7%	99.2%		48.2%	68.3%	

IRIX has been facing challenges starting in FY2007, due to increased competition and less spending by the real estate sector on media purchases. The company is trying to gradually diversify to other consumer services sectors. Since revenues in Q3-2007 were lower than our forecasts, we have revised our revenue forecasts downward to \$0.99 million for FY2007 (down from our previous estimate of \$1.12 million), and \$1.10 million in FY2008 (down from our previous forecast of \$1.23 million).

IRIX was recently ranked by "Business in Vancouver" magazine as the 14th largest ad agency in Greater Vancouver for 2007. Revenues from IRIX contributed only 15.2% of total CAG revenues in the 9-month period in FY2007. CAG had announced earlier this year their intentions to sell off IRIX over time. Although the drop in revenues affects the valuation of IRIX, we believe it is not a major concern for CAG at this time.

Since most of the work completed in the quarter was design and production work (high margin), the company recorded abnormally high gross margins in Q3-2007. Gross margins in Q3-2007 were 99.2% compared to 52.7% in Q3-2006. Gross margins for the 9-month period in FY2007, were 68.3% compared to 48.2% in the comparable period in the previous year. The company will record revenues from relatively lower margin work (printing jobs and ad placements services) in Q4-2007, and hence, we expect gross margins to revert to more historical levels in the next quarter.

Since margins for labor contracts in Q3-2007 were higher than our estimates, we have revised our gross margin forecast for FY2007 upward from 50% to 55%, but have maintained our forecasts for FY2008 at 50%.

Consulting (from unearned revenues received in 2005 and 2006) and Trading Revenues:

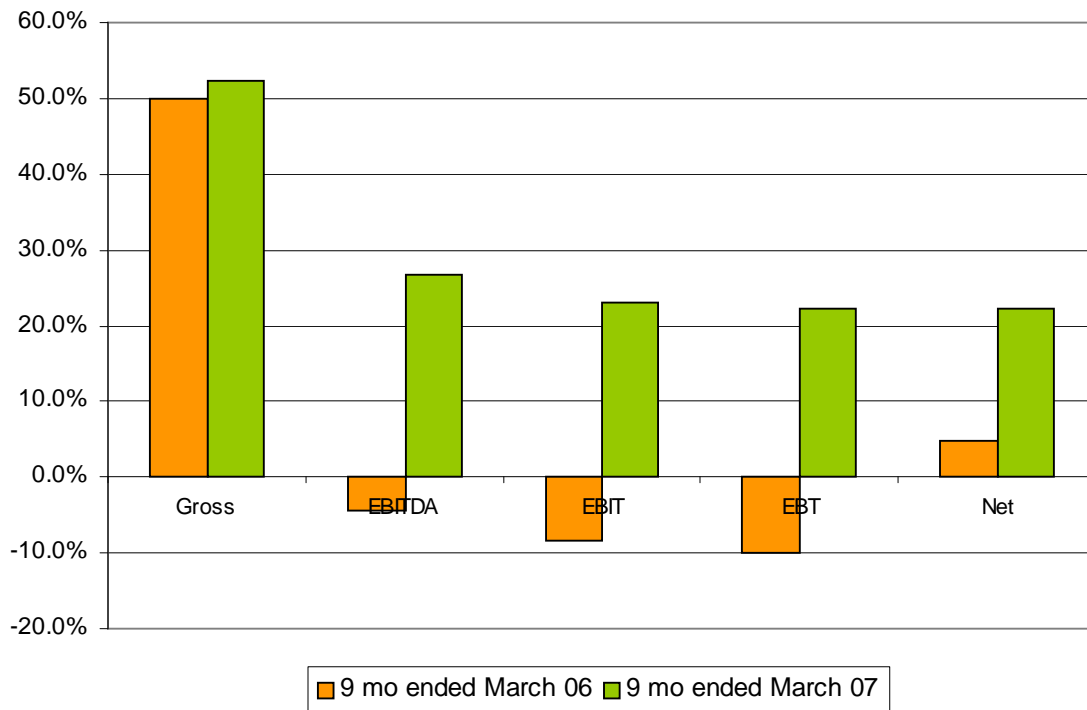
In Q3-2007, the company recorded \$0.21 million in revenues from consulting (from NextMart) and \$0.19 million as revenues from trading NextMart shares, compared to \$0.12 million and \$0.07 million, respectively, in Q3-2006. For the 9-month period in FY2007, the company generated \$0.50 million from consulting, and \$1.39 million from trading, compared to \$0.24 million and \$0.37 million, respectively, in the comparable period in the previous year.

At the end of March 2007, the company held 6.69 million common shares (approximately 7% of total outstanding shares) of NextMart, an online trade media and merchant company. The value of the company’s investment in NextMart has fallen significantly YOY. As of July 19, 2007, NextMart stock was trading at \$0.43 per share, compared to a high of \$6.18 per share in April 2006. In our previous report, we had assumed that CAG would sell NextMart shares over time at a price of \$0.90 (the stock price then). We now value the investment at the 3-month average price of \$0.36 per share, and as a result, we have dropped our revenue forecasts from trading in FY2007, and FY2008.

We understand that it is a very conservative approach to valuing the NextMart investment. However, we prefer to be overly conservative at this time, and intend to revise our valuation based on developments going forward.

Margins: All margins improved YOY in Q3-2007, and the 9-month period in FY2007. Margin improvements in the 9 month period in FY2007 are as shown in the table below.

Margin Comparison



Margins in Q3-2007 improved YOY due to an increase in gross margins (from 44.4% to 48.6%) and revenues from consulting and trading, offset by a increase in general and administrative (G&A) expenses. G&A expenses in Q3-2007 were \$0.87 million (50.36% of sales) compared to \$0.60 million (45.4% of sales) in Q3-2006. G&A expenses in the 9-month period in FY2007 were \$3.05 million (61.80% of sales; higher than our annual forecast of 55% of sales) compared to \$2.21 million (67.25% of sales) in the comparable period in the previous year. G&A expenses in the 9-month period in FY2007 increased primarily due to an increase in salaries and benefits (\$0.76 million to \$1.08 million) and professional fees (from \$0.09 million to \$0.4 million). Salaries and benefits increased due to an increase in staff at all campuses, while professional fees increased due to costs related to due diligence, private placement financings, and registration documents for submission to the U.S. Securities and Exchange Commission.

We have revised our forecasts for G&A expenses upward in FY2007, but have maintained our forecasts for FY2008, as we expect the ratio of G&A to sales to drop with the increase in revenues.

EPS Forecasts: As a result of higher revenues and margins, the company achieved profitability in Q3-2007, versus a net loss in Q3-2006. Net income in Q3-2007 was \$0.07 million (eps: \$0.00) compared to a net loss of \$0.11 million (eps: \$0.00) in Q3-2006. Net income in the first 9 months of FY2007 was \$1.10 million (eps: \$0.03) compared to \$0.16 million (eps \$0.00) in the comparable period in the previous year.

Based on all the above-mentioned changes made in our model, we have slightly revised our eps estimate for FY2007, and FY2008 downward. Our revised forecast for net income in FY2007 is \$0.96 million (eps: \$0.02), and net loss in FY2008 is \$0.28 million (eps: -\$0.01), compared to our previous forecasts of \$1.37 million (eps: \$0.04) and \$0.34 million (eps: \$0.01), respectively.

Cash Position: In the 9 month period in FY2007, cash flows from financing (\$3.72 million) and cash flows from investing (\$1.07million) were able to fund cash required for operating activities (\$0.12 million). Although the company spent \$0.30 million on property and equipment, and lent \$0.15 million as a loan to its subsidiary, the company raised \$1.51 million from sales of NextMart shares, which resulted in a net positive cash flow of \$1.07 million from investing activities. The company raised \$4.29 million in the 9-month period in FY2007, compared to \$2.08 million in the comparable period in the previous year.

Most Recent Financings

- In February 2007, CAG raised \$4.50 million through a private placement (partially brokered), by issuing 6.03 million units at \$0.75 per unit. (each unit consists of one common share and one share purchase warrant)
- **Private Equity Firm Invests US\$5 million in CIBT:** In April 2007, CIBT (CAG's subsidiary) completed a US \$5 million debenture and warrant financing by Camden Partners Holdings LLC, a private equity fund from Baltimore, Maryland. (a US based private equity

firm with expertise in the for-profit education sector). CIBT issued a debenture (due three years from issuance and bears interest at a rate of 8% per annum payable quarterly) and common share purchase warrants to purchase 5.36 million common shares of CIBT at a price of approximately US\$0.93 per share.

CAG now holds 77.5%, Camden Partners holds 21.5%, and BMO Capital Markets holds 1.0% of CIBT. Prior to this transaction, CIBT had increased their ownership in CIBT from 76% to 100%, by paying \$3 million in cash and 4.85 million common shares.

CAG has considerably improved its cash position in 2007, and at the end of Q3-2007 was in an excellent cash position. The table below shows the company's cash and liquidity position at the end of Q3-2007.

Liquidity & Capital Structure	2004A ^x	2005A ^x	2006A	2007 Q3	2007F	2008F
Working Capital (in U.S.\$)	1,257,385	1,420,264	2,348,405	6,875,173	11,276,510	13,990,117
Current Ratio	1.51	1.37	1.99	2.80	5.31	5.54
Debt / Assets	2.5%	0.2%	1.4%	0.6%	29.5%	25.0%

x - in Canadian \$

Cash and working capital at the end of Q3-2007 were \$7.41 million and \$6.88 million, respectively, compared to \$2.74 million and \$2.35 million at the end of FY2006 (June 2006). Debt to capital at the end of Q3-2007 was 0.6% compared to 1.4% at the end of FY2006. We expect Debt to capital to increase to 29.5% (due to the recent debenture and warrant financing) by the end of FY2007, which is still lower compared to that of Apollo Group (NASDAQ: APOL) (69.8%), one of the leading education providers, and the industry (personal service) average debt to capital of 97.3% (according to Reuters). We expect the company to have about \$12.08 million cash on hand by the end of FY2007 (June 2007).

Normal Course Issuer Bid: In May 2007, CAG announced that it intends to commence a normal course issuer bid to buy up to one million shares (2.1% of total issued and outstanding shares). CAG had previously repurchased 0.35 million shares and 0.69 million shares from two normal course issuer bids commenced in October 2005 and October 2006, respectively.

Stock Options and Warrants: At the end of May 2007, the company had 7.81 million warrants outstanding with exercise prices ranging between \$0.58 and \$0.80, and maturity periods between April 2008 and February 2009. The company also had 2.84 million options outstanding with exercise prices ranging between \$0.30 - \$0.80, and maturity periods between June 2008 and February 2011.

Valuation

CPT's shares have risen by 77% since our last update in March 2007, from \$1.04 per share as of May 6, 2007, to \$1.84 per share as of July 17, 2007. We believe that one of the major price drivers is the large positions that the company's management and directors have been taking recently. Our revised valuation on CAG is shown on the next page.

DCF Valuation									
in U.S.\$	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	Terminal
FFO	(588,982)	(400,000)	1,178,649	3,853,457	5,711,297	5,861,896	4,883,639	8,246,373	9,242,988
-increase in w/c	522,291	242,916	960,614	755,804	534,521	714,012	704,340	165,493	637,269
=CFO	(66,691)	(157,084)	2,139,264	4,609,261	6,245,819	6,575,907	5,587,980	8,411,866	9,880,257
-capex (incl. Inv. Inc.)	1,159,667	500,000	250,000	(350,964)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
- net debt repayment	(68,578)	(17,568)	(13,334)	(5,011,204)	(34,248)	-	-	-	-
=FCFE	1,024,397	325,348	2,375,929	(752,906)	5,711,570	6,075,907	5,087,980	7,911,866	9,380,257
PV	1,024,397	290,489	1,894,076	(535,904)	3,629,806	3,447,633	2,577,729	3,578,927	47,146,132
Discount Rate	12.0%								
Terminal Growth	3.0%								
Present Value (in US\$)	\$ 63,053,286								
Cash (in US\$)	\$ 12,412,823								
Value of CAG (US\$)	\$ 75,466,109								
Value of CAG (C\$)	\$ 86,786,025								
Shares O/S (diluted)	54,715,372								
Value per share(C\$)	\$ 1.59								

Our revised DCF valuation increased from \$1.45 to \$1.59, primarily due to the upward revision in our long-term revenue forecasts.

Our valuation on CAG based on industry average valuation multiples is shown below.

Comparables Valuation		
	Industry	Fair Value
P/B	9.57	\$1.65
P/S	2.88	\$0.50
P/E	24.53	n.a
	Average	\$1.08

Fair Value of CAG	
Value of the Business	\$1.08
Value of NXMR Investment	\$0.05
Implied Value of CPT stock	\$1.13

* Note: CAG's sales, eps and book value are adjusted, and do not account for any contribution from the company's investment in NXMR. We have valued the company's investment in NXMR separately.

As shown in the comparables valuation, the company is clearly overvalued at current prices. However, this a comparables valuation does not account for the significant upside potential of the company, as it only accounts for sales and eps forecasts in FY2007. Therefore, we believe that our DCF valuation on CAG is a better reflection of the true fair value of the company at this time.

Rating

Based on our valuation models, and analysis of the company, we have raised our fair value estimate on CAG from \$1.45 to \$1.60. However, since our fair value estimate is about 13% lower than the current stock price, we are lowering our rating to HOLD from BUY. We believe that our revenue projections are conservative, and would like to see how effectively the company carries out its aggressive expansion program before we make any changes in our revenue forecasts.

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 investment in the sector could have an adverse impact on the company.

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

Change in exchange rates: CAG has operations in China, Canada and the U.S. Therefore; 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)

FY2004-05 (YE - Dec 31); FY2006-08 (YE - Jun 30)

	2004A ^x	2005A ^x	2006A ^x 6 mo	2007F	2008F
REVENUES					
Educational CIBT	2,659,192	3,341,219	2,009,672	5,576,053	8,144,460
Design and advertising IRIX	1,180,957	1,593,041	637,342	999,729	1,099,702
Total Revenues	3,840,149	4,934,260	2,647,014	6,575,783	9,244,162
DIRECT COSTS					
Educational CIBT	1,794,610	1,828,666	1,396,797	3,066,829	4,072,230
Design and advertising IRIX	614,603	827,816	309,392	549,851	549,851
Total Direct Costs	2,409,213	2,656,482	1,706,189	3,616,680	4,622,081
Gross Profit	1,430,936	2,277,778	940,825	2,959,102	4,622,081
Consulting Income	-	141,837	283,674	718,520	254,624
Investment income from sale of marketable securities	-	364,872	1,262,428	1,529,045	274,169
Total Net revenues	1,430,936	2,784,487	2,486,927	5,206,667	5,150,874
EXPENSES					
Stock-based compensation	106,200	431,385	90,720	159,158	159,158
General and administrative	3,513,726	3,345,857	1,849,913	3,945,470	4,622,081
Finance Fees	119,808	22,278	-	-	-
Total Expenses	3,739,734	3,799,520	1,940,633	4,104,627	4,781,239
EBITDA	(2,196,778)	(1,015,033)	546,294	1,102,039	369,635
Amortization	159,078	216,670	117,691	212,472	255,928
EBIT	(2,355,856)	(1,231,703)	428,603	889,567	113,707
Non-Recurring Consulting and Other Income	12,954	17,319	9,349	73,042	-
Interest	-	-	-	(66,667)	(400,000)
Loss on disposal of property, plant and equipment	-	(12,561)	(8,170)	-	-
Gain(Loss) resulting from change in ownership of subsidiaries	34,075	615,550	(92,618)	-	-
Non-controlling interests in loss for the year	(112,020)	(104,623)	26,033	62,270	7,960
EBT	(2,308,827)	(716,018)	363,197	958,212	(278,333)
Operating loss from discontinued operations	(335,166)	(130,269)	-	-	-
Gain on sale of discontinued operations	-	487,516	-	-	-
Net Profit (Loss) before tax	(2,643,993)	(358,771)	363,197	958,212	(278,333)
Taxes	-	-	-	-	-
Net Profit (Loss)	(2,643,993)	(358,771)	363,197	958,212	(278,333)
Surplus(Deficit), Beginning of Year	(13,790,410)	(16,434,403)	(16,793,174)	(14,668,313)	(13,710,101)
Surplus(Deficit), End of Year	(16,434,403)	(16,793,174)	(16,429,977)	(13,710,101)	(13,988,434)
EPS	(0.09)	(0.01)	0.01	0.02	(0.01)
Weighted Avg no. of shares outstanding	29,833,729	32,067,490	33,401,864	41,775,311	50,148,758

x - expressed in C\$

CONSOLIDATED BALANCE SHEETS

(in U.S. dollars)

FY2004-05 (YE - Dec 31); FY2006-08 (YE - Jun 30)

	2004A ^x	2005A ^x	2006A	2007F	2008F
ASSETS					
CURRENT					
Cash and short-term investments	2,892,827	2,822,309	2,744,630	12,077,335	15,086,208
Accounts receivable	700,578	769,006	914,288	1,024,838	1,440,706
Prepays and other	123,450	702,941	169,748	156,047	219,370
Marketable securities (NXMR)		945,027	897,714	637,482	326,274
Total Current Assets	3,716,855	5,239,283	4,726,381	13,895,702	17,072,558
Due from Related Parties			126,510	418,691	431,252
Property and Equipment	627,588	822,258	887,747	1,235,095	1,500,857
Intangible Assets	453,515	423,820	363,479	303,659	281,969
Investment in NXMR	-	611,889	611,287	740,898	326,274
Promissory Note Receivable				150,000	150,000
Deferred Cur. Dev. Costs & Other Assets	163,286	130,345	247,424	481,154	481,154
Total Assets	4,961,244	7,227,595	6,962,828	17,225,199	20,244,064
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities	1,758,004	1,202,916	1,289,070	1,637,716	2,092,984
Deferred revenue	551,839	1,485,629	385,431	657,578	924,416
Unearned consulting fees	-	992,859	633,144	254,624	-
Lease obligation	4,725	6,045	16,972	17,568	13,334
Convertible debentures and other loans payable	120,480	-	-	-	-
Due to related parties	24,422	131,570	53,359	51,706	51,706
Total Current Liabilities	2,459,470	3,819,019	2,377,976	2,619,193	3,082,441
Lease Obligation		11,094	78,622	60,457	47,123
Debentures				5,000,000	5,000,000
Loan Payable					
Non-controlling interests	469,630	1,006,103	836,901	774,631	766,672
SHAREHOLDERS EQUITY					
Share capital	18,117,700	18,633,526	17,977,570	22,266,081	24,962,167
Unrealized Foreign Exchange Losses	-	-	(144,585)	(245,903)	(245,903)
Contributed surplus	429,994	815,153	800,172	1,060,648	1,219,806
Treasury shares held	(81,147)	(264,126)	(295,515)	(599,807)	(599,807)
Deficit	(16,434,403)	(16,793,174)	(14,668,313)	(13,710,101)	(13,988,434)
Total shareholders' equity (deficiency)	2,032,144	2,391,379	3,669,329	8,770,918	11,347,829
Total Liabilities and Shareholders Equity	4,961,244	7,227,595	6,962,828	17,225,199	20,244,064

x - expressed in C\$

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in U.S. dollars)

FY2004-05 (YE - Dec 31); FY2006-08 (YE - Jun 30)

	2004A ^x	2005A ^x	2006A ^x 6 mo	2007F	2008F
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit (Loss) for the year	(2,643,993)	(716,018)	363,197	958,212	(278,333)
Adjusted for items not involving cash:					
- amortization	164,370	216,670	117,691	212,472	255,928
-amortization of consulting revenue	-	(141,837)	(283,674)	(378,520)	(254,624)
-gain on sale of marketable securities	-	(364,872)	(1,262,428)	(1,529,045)	(274,169)
- stock-based compensation	293,600	431,385	90,720	159,158	159,158
- non-cash interest and finance fees & others	4,416	61,897	1,586	51,010	-
- write-off of deferred finance fees	119,808	22,278	-	-	-
- loss on disposal of property, plant and equipment	-	12,561	8,170	-	-
- loss(gain) on CIBT share issuances and purchases	(92,636)	(615,550)	92,618	-	-
- non-controlling interests	(117,013)	104,623	(26,033)	(62,270)	(7,960)
- non-cash foreign exchange gain	(8,980)	(31,594)	2,430	-	-
Funds From Operations	(2,280,428)	(1,020,457)	(895,723)	(588,982)	(400,000)
Net changes in non-cash working capital items	367,578	(227,740)	(610,447)	522,291	242,916
Discontinued Operations	-	(283,412)	-	-	-
NET CASH USED IN OPERATING ACTIVITIES	(1,912,850)	(1,531,609)	(1,506,170)	(66,691)	(157,084)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property and equipment	(118,299)	(401,326)	(308,459)	(500,000)	(500,000)
Cash acquired on reverse takeover of SEG Equities	-	545,279	-	-	-
Proceeds from sale of SEG shares	56,997	-	-	-	-
Promissory Note Receivables	-	-	-	(150,000)	-
Sale and acquisition of CIBT shares	36,250	(137,672)	(265,124)	-	-
Net Cash used in marketable securities transaction	-	(25,754)	1,129,111	1,659,667	1,000,000
CIBT curriculum development costs	(44,206)	(56,123)	(16,322)	(233,730)	-
NET CASH USED IN INVESTING ACTIVITIES	(69,258)	(75,596)	539,206	775,937	500,000
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash from equity and debt issuances	3,283,493	469,600	1,493,550	9,288,511	2,696,086
Acquisition of the Company's shares into treasury, net	(34,428)	(182,979)	(66,880)	(304,292)	-
Advances (to) from related parties	(9,338)	107,148	(71,803)	(292,181)	(12,561)
Lease obligation repayments	(2,699)	(10,788)	(19,495)	(17,568)	(17,568)
Proceeds from shares issued to non-controlling interests in CIBT	-	1,185,072	-	-	-
Restricted cash and other deposits	-	-	-	-	-
Convertible debenture proceeds (repayments), net	(33,000)	-	-	(51,010)	-
Funds from loan advances	-	-	-	-	-
Deferred finance fees	(52,060)	(31,366)	(116,457)	-	-
NET CASH FROM FINANCING ACTIVITIES	3,151,968	1,536,687	1,218,915	8,623,460	2,665,957
INCREASE IN CASH FOR THE YEAR	1,169,860	(70,518)	251,951	9,332,705	3,008,873
CASH, BEGINNING OF THE YEAR	1,722,967	2,892,827	2,822,309	2,744,630	12,077,335
CASH, END OF THE YEAR	2,892,827	2,822,309	3,074,260	12,077,335	15,086,208

x- expressed in C\$

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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