



**CIBT EDUCATION GROUP INC.**

**MANAGEMENT'S DISCUSSION & ANALYSIS**  
(EXPRESSED IN CANADIAN DOLLARS UNLESS OTHERWISE STATED)

**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018**

**CIBT EDUCATION GROUP INC.**  
**(the “Company”)**  
**MANAGEMENT’S DISCUSSION & ANALYSIS**  
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018**

The following Management’s Discussion & Analysis (“**MD&A**”) is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the condensed consolidated interim financial statements and related notes for the three and nine months ended May 31, 2018 (the “**Q3 Financial Statements**”) which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). The comparatives in this MD&A have been presented in accordance with IFRS. Additional information about the Company and its subsidiaries, including its annual information form, is available under the Company’s profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

**FORWARD-LOOKING INFORMATION**

This MD&A contains certain forward-looking statements, which relate to future events or the Company’s future performance that include terms such as “will”, “intend”, “anticipate”, “could”, “should”, “may”, “might”, “expect”, “estimate”, “forecast”, “plan”, “potential”, “project”, “assume”, “contemplate”, “believe”, “shall” and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Company’s control, which may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

The forward-looking statements (and their underlying material factors or assumptions) in this MD&A include, without limitation, the following:

1. the student accommodations business is expected to benefit the Company in six ways – development fees, steady stream of rental income, ongoing management fees, fees for supplemental services to student’s daily living such as meal service, insurance, excursion and tutoring, fair value increases as well as any capital gain upon exit;
2. that students from the Company’s own education subsidiaries and its partner schools will provide a steady supply of students into its student housing projects: the underlying material factors or assumptions are that the Company will become more vertically integrated in the future and that GEC<sup>®</sup> branded student housing projects will remain the economical choice for domestic and international students;
3. the expectation that Global Education Alliance Inc. will successfully complete its programs and add more partner schools and unique programs designed for domestic and international students: the underlying material factor or assumption is that the demand for domestic and international students by the Company’s partner schools will continue to grow;
4. the Company’s plans for the proposed GEC<sup>®</sup> education centers: the underlying material factors or assumptions are that sufficient equity financing is raised from investment partners and that the applicable limited partnerships are able to secure loans to enable the purchase of the GEC Education Mega Center<sup>®</sup> project and Global Education City<sup>®</sup> (Richmond) project; that the relevant municipalities are receptive to the proposed building plans; that these projects can be built for a price determined reasonable by the Company and its investment partners; and that these projects can be completed in a reasonable amount of time as determined by the Company and the developer; and
5. the Company’s plans for sufficient student centric facilities to be built over a five year period to accommodate up to 10,000 students: the underlying material factors or assumptions are that the Company will be able to continue to arrange the required equity funding from investment partners at the current pace; that the number of future domestic and international students will maintain or increase near predicted rates, interest rate, government policy and real estate market volatility will remain low or stable, and that GEC<sup>®</sup> branded housing projects will remain the economical choice for incoming students.

The Company believes the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These forward-looking statements speak only as of the date of this MD&A, and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities law.

Reference should also be made to the risks described herein under the heading “Risks Related to the Company’s Business” for a discussion of these and other sources of factors underlying forward-looking statements and those additional risks set forth under the heading “Risk Factors” in the Company’s annual information form for the fiscal year ended August 31, 2017. The Company believes the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These forward-looking statements speak only as of the date of this MD&A, and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities law.

All figures are in Canadian dollars unless otherwise noted. This MD&A has been prepared as of July 15, 2018. In this MD&A, the following terms have the meanings shown:

“**Fiscal 2018**” means the fiscal year ending August 31, 2018

“**Fiscal 2017**” means the fiscal year ended August 31, 2017

“**First Quarter of Fiscal 2018**” means the three months ended November 30, 2017

“**Second Quarter of Fiscal 2018**” means the three months ended February 28, 2018

“**Third Quarter of Fiscal 2018**” means the three months ended May 31, 2018

“**Fourth Quarter of Fiscal 2018**” means the three months ending August 31, 2018

“**First Quarter of Fiscal 2017**” means the three months ended November 30, 2016

“**Second Quarter of Fiscal 2017**” means the three months ended February 28, 2017

“**Third Quarter of Fiscal 2017**” means the three months ended May 31, 2017

“**Fourth Quarter of Fiscal 2017**” means the three months ended August 31, 2017

#### **NON-IFRS FINANCIAL MEASUREMENTS**

The Company has included certain non-IFRS performance measures throughout this document as fully explained and reconciled under the caption “Non-GAAP Financial Performance Measures” in this document. These non-IFRS financial measurements have not been presented as an alternative to net income or loss or any other financial measure of performance prescribed by IFRS.

**Date of Report – July 15, 2018**

**CIBT EDUCATION GROUP INC.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2018**

**NATURE OF BUSINESS**

The Company is an education and student-housing investment company focused on the global education market since 1994. Listed on the Toronto Stock Exchange (the "TSX") under the trading symbol "MBA" and quoted on United States OTCQX-International under the trading symbol "MBAIF". The Company owns and operates a network of business, technical and language colleges in North America and Asia. Its real estate arm is an investor in limited partnerships that own a network of serviced apartments and hotels, operated by the Company, that provide market rental apartments catered to domestic and international students studying in the Metro Vancouver area, British Columbia.

The Company's operating entities are as follows:

<b>Legal / Operating Entity</b>	<b>Business Description</b>
CIBT School of Business & Technology Corp. ("CIBT" or "CIBT China")	Associate Degree provider offering automotive technical training, English teacher preparation, English as Second Language, and accounting programs in China.
Sprott Shaw College Corp. ("SSCC")	Private career and technical training college offering diplomas and certificates in health care, tourism, hospitality, business, administrative, technical trades, and international studies in Canada.
Sprott Shaw Language College ("SSLC")	English as a Second Language College, offering accredited programs including General English (ESL), College Preparation/Pathway, Business English, Medical English, English Teacher Training, and Summer Camp programs. SSLC is a wholly owned subsidiary of SSCC.
Vancouver International College ("VIC")	English as a Second Language College, offering accredited programs including General English (ESL), College Preparation/Pathway, Business English, Medical English and IELTS Test Preparation.
Global Education Alliance Inc. ("GEA")	International students' referral and on-ground concierge services for elite kindergarten, primary, secondary school and university students coming to study in North America.
Global Education City Holdings Inc. ("Global Education Holdings")	Investment holding and management company with focus on student housing real estate projects in Canada such as serviced apartments and hotels for domestic and international students as well as technology professionals in the Metro Vancouver area in British Columbia.
IRIX Design Group Inc. ("IRIX")	Design and advertising company which services mainly the real estate industry.

The Company's primary business units consist of three categories with Corporate (head office) as the supporting hub: Education: SSCC, SSLC/VIC, GEA, and CIBT China; Education related real estate: Global Education Holdings; and Media: IRIX.

**THIRD QUARTER HIGHLIGHTS**

**Acquisition of GEC<sup>®</sup> Project 8**

In January 2018, Global Education Holdings entered into a Purchase and Sale Agreement with the majority owner of the limited partnership that owned one of the GEC<sup>®</sup> branded downtown Vancouver properties (GEC<sup>®</sup> Project 4) to acquire that partner's equity interest. As of March 15, 2018, an entity controlled by the Company now holds 100% interest in GEC<sup>®</sup> LP 4. Concurrently, GEC<sup>®</sup> LP 8 purchased beneficial interest of GEC<sup>®</sup> Project 4, which is now known as GEC<sup>®</sup> Project 8, for \$57,000,000. GEC<sup>®</sup> LP 4 realized a gain on property disposition of \$2,025,278.

The acquisition of GEC<sup>®</sup> Project 8 (the "Project 8 Acquisition") was comprised of several transactions including but not limited to: (a) the acceptance in January 2018 by Global Education Holdings of a promissory note as lender for \$12,000,573 associated with the repayment of a mortgage held by GEC<sup>®</sup> LP 4, which was repaid on closing of the Project 8 Acquisition; (b) the assumption by GEC<sup>®</sup> LP 8 of a \$21,000,000 loan (secured by a mortgage) previously owed by GEC<sup>®</sup> 4 LP; (c) new borrowings of \$19,000,000 under a second mortgage by GEC<sup>®</sup> LP 8; and (d) sale of partnership units in GEC<sup>®</sup> LP 8 to third parties to fund the Project 8 Acquisition. Entities controlled by the Company granted security of the indebtedness mentioned above. At March 15, 2018 and May 31, 2018, the Company held 47% in GEC<sup>®</sup> LP 8. The Company has assessed that the transaction is a business combination. The Company's purchase price allocation is preliminary pending obtaining additional

information regarding estimates of fair values and costs made at the date of purchase. The adjustments to finalize the purchase price allocation which may be made during the measurement period could be significant.

### **Acquisition of GEC<sup>®</sup> Project 9**

During the Second Quarter of Fiscal 2018, a new limited partnership (“GEC<sup>®</sup> LP 9”) was formed and a subsidiary of the Company became the general partner of this limited partnership and entered into a definitive Purchase and Development Agreement with a Vancouver developer, whereby the developer will construct a complex of which the GEC<sup>®</sup> development portion will consist of one office tower and two residential towers. The limited partnership is required to pay deposits totaling \$65,000,000 at dates ranging to December 15, 2018, of which \$45,000,000 were paid at the date of this report. These and future deposits will be funded from subscriptions from qualified investors. This project will be the new Global Education City<sup>®</sup> (Richmond) and the Company is considering an alternative project called Cyber City for the land previously purchased at another location in Richmond originally designated as GEC<sup>®</sup> Education Super Center. Construction is expected to commence in fall of 2018 and completion is expected in the summer of 2022.

### **Project Financing**

A total of \$40,000,000 of equity financing capital to be used in the development of the GEC<sup>®</sup> LP 9 project was raised by the associated limited partnership in March and April 2018. During the Third Quarter of Fiscal 2018, the Company earned development fees of \$8,000,057 associated with this project. On April 2, 2018, Global Education Holdings executed two promissory notes payable totaling \$2,000,000 payable on May 2, 2018 to meet the deposit requirements of GEC<sup>®</sup> Project 9. One of the promissory notes was repaid and \$1,500,000 notes payable still exist which are expected to be repaid in the Fourth Quarter of Fiscal 2018.

### **Finalization of KGIC Transaction**

On March 29, 2017, the Company purchased substantially all the operating assets of KGIC, Inc. (“KGIC”) (“**KGIC Transaction**”) and commenced the integration of those assets with the existing education assets in Canada. In the Third Quarter of Fiscal 2018, the KGIC Transaction was finalized and adjustments to the previously disclosed provisional amounts and associated balances associated with the business combination were accounted for as if those adjustments had been completed as of the business combination date of March 29, 2017. The finalization of the purchase price allocation results in the certain comparative information presented in this MD&A changing from previously reported balances as noted throughout this MD&A.

### **Acquisition of GEC<sup>®</sup> Project 2**

In May 2014, a subsidiary of the Company entered into an agreement with a developer to purchase the completed Project, which comprises two six-story buildings for a cost of \$42,500,000. The occupancy permit for the buildings are expected during July at which time the Company will purchase the Property and sell its interest to GEC<sup>®</sup> LP 2. The Project is expected to be fully leased within the next six months. The value of the Property has increased substantially since the original agreement. In connection with the pending purchase of Project 2, GEC<sup>®</sup> LP 2 entered into commitment letters for \$37,400,000 of funding to be secured by first and second mortgages against the property.

### **Sale and Leaseback of GEC<sup>®</sup> Project 3**

In May 2018, GEC<sup>®</sup> LP 3 entered into a purchase and sale agreement for the proposed sale of its beneficial ownership in the property. The agreement contemplates the sale and leaseback of the property for use in the Company’s student housing arm and is subject to certain conditions before closing. The parties continue to negotiate the final business terms as of the date of this report.

### **GEC<sup>®</sup> Project Updates**

GEC Education Mega Center<sup>®</sup>, received Advisory Design Panel and further reading approvals by Surrey City Council, with only the final approval required which was expected in the Third Quarter of Fiscal 2018. Additional meetings with the City of Surrey are required and rezoning approval is expected to be granted during the Fourth Quarter of Fiscal 2018. Construction is expected to start in early 2019 and completion is expected in summer of 2022.

A limited partnership in which the Company is an investor acquired GEC<sup>®</sup> Project 1 in Vancouver in First Quarter of Fiscal 2018 and construction of rental serviced apartments was expected to begin in the Fourth Quarter of Fiscal 2018. Construction is now anticipated to commence early 2019.

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes selected Company financial information for the last eight completed fiscal quarters.

	Quarter Ended May 31, 2018 (Third Quarter)	Quarter Ended February 28, 2018 (Second Quarter)	Quarter Ended November 30, 2017 (First Quarter)	Quarter Ended August 31, 2017 (Fourth Quarter)
Total revenues – Continuing operations <sup>(1)</sup>	\$22,834,707	\$17,656,658	\$14,203,870	\$16,789,254
Net income (loss) <sup>(2)</sup>	\$7,958,031	\$1,883,862	\$6,803,875	(\$296,016)
Income (loss) per share [Non-IFRS] <sup>(3)</sup>	\$0.10	\$0.02	\$0.09	\$0.00
Net income (loss) - CIBT Education Group Inc. shareholders	\$8,499,570	\$2,545,788	\$724,013	(\$3,096,106)
Income (loss) per share - CIBT Education Group Inc. shareholders – basic and diluted	\$0.11	\$0.03	\$0.01	(\$0.04)

	Quarter Ended May 31, 2017 (Third Quarter)	Quarter Ended February 28, 2017 (Second Quarter)	Quarter Ended November 30, 2016 (First Quarter)	Quarter Ended August 31, 2016 (Fourth Quarter)
Total revenues – Continuing operations <sup>(1)</sup>	\$12,360,578	\$10,492,521	\$13,979,876	\$8,831,395
Net income (loss) <sup>(2)</sup>	(\$1,413,304)	\$1,879,499	\$5,660,983	(\$787,174)
Income (loss) per share [Non-IFRS] <sup>(3)</sup>	(\$0.02)	\$0.03	\$0.08	(\$0.01)
Net income (loss) - CIBT Education Group Inc. shareholders	(\$2,269,733)	\$89,449	\$5,210,614	(\$1,029,597)
Income (loss) per share - CIBT Education Group Inc. shareholders – basic and diluted <sup>(3)</sup>	(\$0.03)	\$0.00	\$0.08	(\$0.02)

- (1) No discontinued operations in the quarterly information presented.
- (2) Comparative revenues and net income (loss) information for the Third Quarter of Fiscal 2017 to the Second Quarter of Fiscal 2018 have been adjusted to reflect the final KGIC Transaction purchase price allocation determined in the Third Quarter of Fiscal 2018. Adjustments to the previously disclosed provisional amounts and associated balances have been accounted for as if those adjustments had been completed as of the business combination date of March 29, 2017. The Third Quarter of Fiscal 2017 reflects the reversal of the bargain purchase gain of \$1,167,277 and additional costs of \$1,611,113 associated with the KGIC Transaction. Other adjustments were not material and included educational revenues and direct costs, amortization of intangibles and a realized gain on sale on one asset.
- (3) Income (loss) per share [Non-IFRS] is calculated based on total income attributable to shareholders and non-controlling interests over the weighted average number of ordinary shares. While the objective of basic earnings per share information is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period, Management believes that this measure of Non-IFRS income (loss) per share provides a more accurate reflection of the value of the Company.
- (4) There was no dilutive effect in periods presented.

Total revenues for continuing operations are predominately driven by: (a) the educational revenues earned from the education business; and (b) the revenue sources generated by the investment in student housing which results in rental revenue. Education revenues are positively impacted by the addition of new schools such as VIC in the Fourth Quarter of Fiscal 2016 and the acquisition of certain KGIC assets in the Third Quarter of 2017, both of which provide predominantly ESL programs and increased revenues attributable to SSCC as a result of new curriculum changes and increased student enrolment. In addition, development fees revenues and fair value gains on investment properties represent other major sources of income.

The Company's investment into the real estate sector starting in the fiscal year ended August 31, 2015, with emphasis on providing student housing services, has created a business model that is showing improved results with the addition of each property or project. As additional student housing is made available, rental revenue increases.

The projects are held in limited partnerships of which the Company is an investor and a general partner. The Company generally receives development fees contemporaneously with the closing of equity financing for a project. During the three and nine months ended May 31, 2018, development fees of \$8,019,562 and \$11,662,382 were recognized associated with certain projects. During the three and nine months ended May 31, 2017, development fees of \$nil and \$5,595,239 were recognized associated with certain projects.

Each quarter, the fair value of the investment properties is determined and during the three and nine months ended May 31, 2018, gains on fair value changes in investment properties were \$nil and \$8,634,612. For the three and nine months ended May 31, 2017, gains on fair value changes in investment properties were \$1,485,562 and \$5,741,344. Development fees and fair value gains result in higher net income as associated costs of earning such income is lower than with other revenue.

During the Third Quarter of Fiscal 2018, the Company recognized a gain of \$2,025,278 associated the purchase of 100% of GEC<sup>®</sup> Project 4 and resulting sale of the property to GEC<sup>®</sup> LP 8, as described in Third Quarter Highlights above.

Net income (loss) fluctuates based on changes in margins across all segments, and the timing of recognition of fair value gains on investment properties and development fees, which vary depending on activity in the quarter. Net income (loss) attributable to the Company's shareholders varies depending on the net income (loss) in the quarter and the number of non-controlling ownership positions.

Education revenue is affected by seasonality as the academic season starts in September and ends in June. The majority of students tend to start their academic year in September and therefore enrollment in the first quarter of each of the Company's fiscal years is typically higher than in any other fiscal quarters. All educational revenue is recorded as deferred educational revenue at the time of enrollment until the tuition fee is earned over the duration of the program.

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## REVIEW OF QUARTERLY FINANCIAL RESULTS

The table below describes the financial performance of each main business unit (continuing operations) of the Company, including revenues, revenues net of associated direct costs and selected expenses for the Third Quarter of Fiscal 2018 compared to Third Quarter of Fiscal 2017.

	Quarter Ended May 31, 2018	Quarter Ended May 31, 2017 <sup>(1)</sup>	Absolute Change	Percentage Change
Total revenues	\$22,834,707	\$12,360,578	\$10,474,129	84.74%
Total revenues net of direct costs – Overall (%)	71.68%	50.95%	20.73%	40.69%
Educational revenues – CIBT China	\$469,310	\$438,473	\$30,837	7.03%
Educational revenues net of direct costs – CIBT China (%)	35.68%	52.86%	-17.19%	-32.51%
Educational revenues – SSCC	\$8,885,051	\$8,763,812	\$121,239	1.38%
Educational revenues net of direct costs – SSCC (%)	62.58%	54.93%	7.65%	13.93%
Educational revenues – SSLC / VIC	\$2,263,440	\$696,469	\$1,566,971	224.99%
Educational revenues net of direct costs – SSLC / VIC (%)	33.01%	45.98%	-12.97%	-28.20%
Design and advertising revenues – IRIX	\$289,378	\$259,976	\$29,402	11.31%
Design and advertising revenues net of direct costs – IRIX (%)	80.27%	72.59%	7.69%	10.59%
Commissions and referral fees – GEA	\$199,921	\$121,913	\$78,008	63.99%
Commissions and referral fees net of direct costs – GEA (%)	27.18%	39.06%	-11.88%	-30.42%
Rental revenues – Global Education Holdings	\$2,708,045	\$2,079,935	\$628,110	30.20%
Rental revenues net of direct costs – Global Education Holdings (%)	58.61%	33.45%	25.17%	75.24%
Development fees – Global Education Holdings and Corporate	\$8,019,562	\$0	\$8,019,562	100.00%
General and administrative expenses	\$8,054,189	\$6,667,798	\$1,386,391	20.79%
Gain on fair value changes in investment properties	\$0	\$1,485,562	(\$1,485,562)	-100.00%
Net income (loss)	\$7,958,031	(\$1,413,304)	\$9,371,335	663.08%
EBITDA [non-IFRS]	\$9,993,887	(\$629,399)	\$10,623,286	1687.85%

<sup>(1)</sup> Reflects adjustments for finalization of KGIC Transaction.

### For the three months ended May 31, 2018 compared to the three months ended May 31, 2017

Net income was \$7,958,031 for the Third Quarter of Fiscal 2018 compared to a net loss of \$1,413,304 for the Third Quarter of Fiscal 2017. The net increase in net income resulted from: earnings from operations increase of \$10,070,319 and gain on property disposal of \$2,025,278; offset by the absence of fair value gains on investment properties of \$1,485,562; \$1,611,113 of costs associated with the KGIC Transaction; increased general and administrative expenses of \$1,386,391; and increased finance costs and fees of \$1,177,019. Total revenues increased due to increased educational revenues of \$1,797,055, increased net rental revenues associated with the student housing arm of \$628,110 and increased development fees of \$8,019,562, with direct costs associated with all revenues increasing by \$403,810.

### Educational

- SSCC revenues increased as the result of increased student base including international students, and revenues from the addition of one new division of SSCC acquired in the KGIC Transaction which generated revenue starting March 29, 2017. Margins increased predominately because of increased students and streamlining of costs.
- SSLC started generating revenue on March 29, 2017 as the result of its purchase of former KGIC assets. Revenues in the Third Quarter of Fiscal 2018 include both VIC operations and operations associated with the former KGIC assets. Margins have decreased with the addition of SSLC operations to those of VIC as the Company continues to integrate the assets; however, margins have improved an additional 1.6% since the previous quarter as SSLC continues to

streamline operations and SSLC expects to see increased margins based on economies of scale of its operations in future quarters.

- CIBT's China revenues increased primarily driven by an increase in teacher training and other programs.
- GEA revenues fluctuate based on activity and mix of revenues types during the year, with certain revenue fulfillment resulting in higher costs and lower margins and vice versa.

### **Real Estate and Student Housing**

- Global Education Holdings continues to generate rental revenues and this source of revenue will fluctuate based on occupancy and rental space available, both of which are trending higher. Management fees and revenues increased from occupancy and stabilization of rents for properties purchased in prior periods. Margins on rental revenues increased as direct costs decreased in relation to revenues as the Company continues to scale its investment properties.
- Development fee revenues are a result of the Company's efforts in planning for and developing student centric serviced apartments as well as education centers. Development fees earned depend on the project development activities for projects during each fiscal year and number of projects initiated. During the Third Quarter of Fiscal 2018, development fees were mainly earned for GEC® Project 9. The Company expects to realize more development fees in the Fourth Quarter of Fiscal 2018 associated with additional financing for GEC® Education Mega Center and Global Education City® (Richmond) projects.
- Gains on fair value changes on investment properties result from the appreciation of the value of land and property since purchase, the timing of which vary on the investment property. During the Third Quarter of Fiscal 2018, there were no fair value gains realized.

### **Corporate**

- General and administration expenses increased primarily due to increased salaries and benefits as the Company's team continues to expand and integrate acquired assets, increased professional fees associated with the increased number of transactions, increased advertising and increased rent costs associated with the KGIC Transaction.
- Interest and other income was \$122,650 in Third Quarter of Fiscal 2018 compared to \$351,462 in Third Quarter of Fiscal 2017. Other income consists of: recurring management fees the Company earns by managing the operating projects and other non-recurring items dependent on the period of activity.
- Finance costs and fees were \$1,870,624 in Third Quarter of Fiscal 2018 compared to \$693,605 in Third Quarter of Fiscal 2017. Finance costs include interest on borrowings and accretion of finance fees incurred by the limited partnerships which hold the debt and fluctuate based on the timing of new debt instruments. In the Third Quarter of Fiscal 2018, \$40,000,000 of new debt was funded accounting for 60% of the increase in interest costs.
- The Company recognized a gain of \$2,025,278 associated the purchase of 100% of GEC® Project 4 and resulting sale of the property to GEC® LP 8, as described in Third Quarter Highlights above.

### **Other**

- IRIX's revenues fluctuate based on activity and mix of revenues types during the year, with certain revenue fulfillment resulting in higher costs and lower margins and vice versa.

## REVIEW OF YEAR-TO-DATE FINANCIAL RESULTS

The table below describes the financial performance of each main business unit (continuing operations) of the Company, including revenues, revenues net of associated direct costs and selected expenses for the nine months ended May 31, 2018 compared to the comparative prior year period.

	Nine Months Ended May 31, 2018 <sup>(1)</sup>	Nine Months Ended May 31, 2017 <sup>(1)</sup>	Absolute Change	Percentage Change
Total revenues	\$54,695,235	\$36,832,975	\$17,862,260	48.50%
Total revenues net of direct costs – Overall (%)	62.34%	59.04%	3.29%	5.57%
Educational revenues – CIBT China	\$1,791,567	\$1,428,081	\$363,486	25.45%
Educational revenues net of direct costs – CIBT China (%)	48.16%	49.31%	-1.15%	-2.33%
Educational revenues – SSCC	\$25,964,358	\$21,334,523	\$4,629,835	21.70%
Educational revenues net of direct costs – SSCC (%)	61.26%	57.99%	3.27%	5.64%
Educational revenues – SSLC / VIC	\$7,204,942	\$1,949,790	\$5,255,152	269.52%
Educational revenues net of direct costs – SSLC / VIC (%)	31.93%	46.42%	-14.50%	-31.22%
Design and advertising revenues – IRIX	\$839,779	\$724,986	\$114,793	15.83%
Design and advertising revenues net of direct costs – IRIX (%)	75.27%	73.77%	1.50%	2.03%
Commissions and referral fees – GEA	\$679,826	\$541,788	\$138,038	25.48%
Commissions and referral fees net of direct costs – GEA (%)	25.10%	34.64%	-9.54%	-27.55%
Rental revenues – Global Education Holdings	\$6,552,381	\$5,258,568	\$1,293,813	24.60%
Rental revenues net of direct costs – Global Education Holdings (%)	39.07%	27.55%	11.52%	41.83%
Development fees – Global Education Holdings and Corporate	\$11,662,382	\$5,595,239	\$6,067,143	108.43%
General and administrative expenses	\$23,089,223	\$17,360,308	\$5,728,915	33.00%
Gain on fair value changes in investment properties	\$8,634,612	\$5,741,344	\$2,893,268	50.39%
Net income	\$16,645,768	\$6,127,178	\$10,518,590	171.67%
EBITDA [non-IFRS]	\$20,856,587	\$8,212,312	\$12,644,275	153.97%

<sup>(1)</sup> Reflects adjustments for finalization of KGIC Transaction.

### For the nine months ended May 31, 2018 compared to the nine months ended May 31, 2017

Net income increased by \$10,518,590 for the nine months ended May 31, 2018 over the comparative prior year period. The net increase in net income resulted from: earnings from operations increase of \$12,346,501, gain on property disposal of \$2,025,278, \$2,893,268 of additional fair value gains on investment properties and the absence of \$1,611,113 of costs associated with the KGIC Transaction; offset by increased general and administration expenses of \$5,728,915; and increased finance costs and fees of \$1,800,343. Total revenues increased due to increased educational revenues of \$10,248,473, increased net rental revenues associated with the student housing arm of \$1,293,813, and \$6,067,143 of additional development fees with direct costs associated with all revenues increasing by \$5,515,759.

Unless otherwise noted below the changes in the Company's results for the year to date period were similar to the three months ended May 31, 2018 discussed above.

### Educational

- SSCC revenues increased as the result of increased student base including international students, and revenues from the addition of one new division of SSCC acquired in the KGIC Transaction which generated revenue starting March 29, 2017. Margins increased predominately because of increased students and streamlining of costs.

- SSLC started generating revenue on March 29, 2017 as the result of its purchase of former KGIC assets. Revenues in the nine months ended May 31, 2018 include both VIC operations and operations associated with the former KGIC assets. Margins have decreased with the addition of SSLC operations to those of VIC as the Company continues to integrate the assets; however, SSLC expects to see increased margins based on economies of scale of its operations in future quarters.

### **Real Estate and Student Housing**

- The nine months ended May 31, 2018 included development fees earned associated with GEC<sup>®</sup> Projects 7, 8 and 9. The nine months ended May 31, 2017 included development fees earned associated with GEC<sup>®</sup> Projects 5, 6 and 7.
- Fair value gains on investment properties for the nine months ended May 31, 2018 results from the purchase of an investment property in October 2017 and an increase in land value of another investment property. Fair value gains on investment properties for the nine months ended May 31, 2017 results from the purchase of an investment property in October 2016 and an increase in land value of another investment property.

### **Corporate**

- Interest and other income was \$718,697 in the nine months ended May 31, 2018 compared to \$1,147,754 in the comparative prior year period. Finance costs and fees were \$3,687,962 in the nine months ended May 31, 2018 compared to \$1,887,619 in the comparative prior year period.

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## NON-GAAP FINANCIAL PERFORMANCE MEASURES

The Company has included certain non-GAAP performance measures throughout this document including: (a) Earnings before Interest, Income Taxes, Depreciation and Amortization (“**EBITDA**”); (b) Adjusted EBITDA which is EBITDA adjusted for the gain (loss) on change in fair value of the Company’s investment properties; and (c) Income (loss) per share [Non-IFRS], which is income (loss) per share as calculated based on net income including that attributable to non-controlling interests. These non-IFRS financial measurements do not have any standardized meaning as prescribed by International Financial Reporting Standards (“**IFRS**”) and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Management uses EBITDA metrics to measure the profit trends of the business units and segments in the consolidated group since it eliminates the effects of financing decisions. Management uses Income (loss) per share [Non-IFRS] as Management believes it is a more accurate reflection of value of the Company. Certain investors, analysts and others utilize these non-IFRS financial metrics in assessing the Company’s financial performance. These non-IFRS financial measurements have not been presented as an alternative to net income (loss) or any other financial measure of performance prescribed by IFRS. Reconciliation of the non-IFRS measures are provided below.

	Three Months Ended May 31, 2018	Three Months Ended <sup>(2)</sup> May 31, 2017	Nine Months Ended May 31, 2018	Nine Months Ended <sup>(2)</sup> May 31, 2017
Income (loss) – continuing operations	\$7,958,031	(\$1,413,304)	\$16,645,768	\$6,127,178
Add: interest on borrowings	\$1,554,271	\$491,738	\$2,978,485	\$1,334,902
Add: income tax (recovery) provision	\$0	\$0	\$0	\$0
Add: depreciation and amortization	\$481,585	\$292,167	\$1,232,334	\$750,232
EBITDA [non-IFRS]	\$9,993,887	(\$629,399)	\$20,856,587	\$8,212,312
Deduct: gain on fair value changes in investment properties	\$0	\$1,485,562	\$8,634,612	\$5,741,344
Adjusted EBITDA [non-IFRS] – Continuing operations	\$9,993,887	(\$2,114,961)	\$12,221,975	\$2,470,968

	Three Months Ended May 31, 2018	Three Months Ended <sup>(2)</sup> May 31, 2017	Nine Months Ended May 31, 2018	Nine Months Ended <sup>(2)</sup> May 31, 2017
Net income (loss) - CIBT Education Group Inc. shareholders	\$8,499,570	(\$2,269,733)	\$11,769,371	\$3,030,330
Add: net income (loss) - Non-controlling interests	(\$541,539)	\$856,429	\$4,876,397	\$3,096,848
Net income	\$7,958,031	(\$1,413,304)	\$16,645,768	\$6,127,178
Income per share [non-IFRS] - basic and diluted <sup>(1)</sup>	\$0.10	(\$0.02)	\$0.21	\$0.08
Income per share - CIBT Education Group Inc. shareholders - basic and diluted	\$0.11	(\$0.03)	\$0.15	\$0.04

<sup>(1)</sup> Income (loss) per share [Non-IFRS] (“Non-IFRS”) is calculated based on total income attributable to shareholders and non-controlling interests over the weighted average number of ordinary shares. While the objective of basic earnings per share information is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period, Management believes that this measure of Non-IFRS income (loss) per share provides a more accurate reflection of the value of the Company. Basic and diluted income (loss) per share are the same unless otherwise noted.

<sup>(2)</sup> Reflects adjustments for finalization of KGIC Transaction.

## FINANCIAL POSITION AND LIQUIDITY

The following table summarizes the Company's cash flow activity. The Company's operations have been financed primarily through internal cash flow, debt financing and equity financing in the form of private placements and equity contributions in the limited partnerships controlled by the Company.

	3 Months Ended May 31, 2018	3 Months Ended May 31, 2017 <sup>(1)</sup>	9 Months Ended May 31, 2018	9 Months Ended May 31, 2017 <sup>(1)</sup>
From operations provided by (used in) operating activities	\$8,656,154	(\$443,864)	\$19,507,075	\$8,782,196
From operations (used in) investing activities	(\$61,240,764)	(\$8,591,527)	(\$78,749,915)	(\$44,381,330)
From operations provided by (used in) financing activities	\$49,071,817	\$8,847,426	\$62,830,407	\$37,997,535
Effects of exchange rate changes on cash and cash equivalents	(\$1,578)	\$38,947	\$97,215	\$72,447
Increase (decrease) in cash and cash equivalents	(\$3,514,371)	(\$149,018)	\$3,684,782	\$2,470,848
Cash and cash equivalents, beginning of period	\$14,079,537	\$6,961,836	\$6,880,384	\$4,341,970
Cash and cash equivalents, end of period	\$10,565,166	\$6,812,818	\$10,565,166	\$6,812,818

<sup>(1)</sup> Reflects adjustments for finalization of KGIC Transaction.

### ***Operating Activities***

Cash flow provided by operating activities increased by \$9,100,018 in the Third Quarter of Fiscal 2018 compared to the comparative period due to higher net income in the period not resulting from fair value gains on investment properties and increases due to changes in net cash working capital of \$1,323,835. Additional sources of cash resulted from the delayed payment of accounts payable at May 31, 2018 and the repayment from third parties balances associated with certain limited partnerships. An increase in accounts receivable were uses of cash in the period.

Cash flow provided by operating activities increased by \$10,724,879 in nine months ended May 31, 2018 over the comparative period as the result of an increase of \$6,217,081 in net income adjusted for non-cash items and an increase in non-cash working capital of \$4,507,798 resulting from \$5,666,387 received from third parties, increased deferred education revenues, collection of accounts receivable and settlement of cash in trust.

### ***Investing Activities***

Cash used in investing activities increased by \$52,649,237 in the Third Quarter of Fiscal 2018 over the comparative period due to \$44,000,000 refundable deposits made on real estate projects, acquisition of investments and business assets of \$15,233,238 and increased costs associated with investment properties including project development costs and fees.

Cash used in investing activities increased by \$34,368,585 in nine months ended May 31, 2018 over the comparative period due to \$47,000,000 refundable deposits made on real estate projects, increased project development cost and fees, acquisition of investments and business assets of \$15,233,238, increase in intangibles, offset by a decrease in use of cash of \$22,296,274 for investment properties acquisitions and additions. GEC<sup>®</sup> Project 1 was purchased during the nine months ended May 31, 2018, and GEC<sup>®</sup> Project 5 and GEC<sup>®</sup> Project 6 were purchased during the nine months ended May 31, 2017.

### ***Financing Activities***

Cash provided by financing activities increased by \$40,224,391 in the Third Quarter of Fiscal 2018 over the comparative period mainly as the result of additional contributions by non-controlling interests into certain real estate limited partnerships including GEC<sup>®</sup> Project 9, the receipt of the promissory note receivable associated with the KGIC transaction, increased net borrowings of \$14,071,294, offset by a decrease in cash provided from the issuance of shares in the comparative period.

Cash provided by financing activities increased by \$24,832,872 in nine months ended May 31, 2018 mainly as the result of additional contributions by non-controlling interests into certain real estate limited partnerships including GEC<sup>®</sup> Project 9, offset by increased advances to related parties, and a decrease in cash provided from the issuance of shares.

The following table compares selected financial condition information as at May 31, 2018 and August 31, 2017:

	May 31, 2018 <sup>(1)</sup>	August 31, 2017 <sup>(1)</sup>	Dollar Change	Percentage Change
Total assets	\$295,024,223	\$166,918,288	\$128,105,935	76.75%
Cash and cash equivalents	\$10,565,166	\$6,880,384	\$3,684,782	53.55%
Accounts receivable	\$12,007,642	\$9,271,204	\$2,736,438	29.52%
Due from related parties	\$151,517	\$2,776,320	(\$2,624,803)	-94.54%
Property and equipment	\$59,767,933	\$4,142,299	\$55,625,634	1342.87%
Investment properties	\$121,615,200	\$101,010,000	\$20,605,200	20.40%
Assets held for sale	\$5,600,000	\$0	\$5,600,000	100.00%
Accounts payable and accrued liabilities	\$9,549,741	\$6,451,858	\$3,097,883	48.02%
Deferred educational revenue	\$23,208,123	\$18,452,047	\$4,756,076	25.78%
Borrowings	\$109,765,713	\$58,825,297	\$50,940,416	86.60%
Due to arm's length parties	\$5,666,387	\$0	\$5,666,387	100.0%
Working capital surplus (deficit) – see below	(\$73,722,708)	(\$40,534,349)	\$33,188,359	81.88%
CIBT Shareholders' Total Equity	\$41,961,735	\$29,693,797	\$12,267,938	45.96%
Total equity	\$140,942,530	\$76,974,760	\$63,967,770	83.10%

<sup>(1)</sup> Reflects adjustments for finalization of KGIC Transaction.

Total assets increased as the result of increases in: cash and cash equivalents, accounts receivable associated with increased educational revenues and student base, fair value of investment properties resulting from the addition of one investment property and gains on fair value changes for certain investment properties, property and equipment associated with the purchase of GEC<sup>®</sup> Project 8 land and building, refundable deposits paid associated mainly with GEC<sup>®</sup> Project 9, offset by decreases in amounts due from related parties and investments in associate.

Total liabilities increased by \$64,138,165 as the result of increases in: accounts payable and accrued liabilities, deferred educational revenues, additional borrowings associated with the purchase of Projects, and additional amounts due to arm's length parties.

Total working capital deficit increased during the nine months ended May 31, 2018 as \$60,347,549 of borrowings in certain real estate limited partnerships were classified as current liabilities at May 31, 2018 due to the timing of maturity, there were additional amounts payable as described in the liquidity section and increased deferred educational revenue which represents the future cost to fulfil associated revenues. These decreases in working capital were offset by an increase in cash and cash equivalents, accounts receivable, and amounts due from related parties.

Total working capital deficit also increased at August 31, 2017 associated with borrowings of GEC<sup>®</sup> LP 3 which were classified as current liabilities at both May 31, 2018 and August 31, 2017. The Company determined that it was more economical to refinance certain properties on a stabilized basis to obtain long-term financing at a lower interest rate.

At May 31, 2018, the Company had \$10,565,166 of cash and cash equivalents and a undrawn \$2,500,000 revolving credit facility. The Company's management believes that despite the working capital deficit, that they have demonstrated that entities controlled by the Company are able to secure financing and believe new financing will be secured before maturity of existing borrowings. Current terms of mortgages do not require cash outflow until the Fourth Quarter of Fiscal 2018 and its expected that new financing will be in place to fund these commitments. The majority of commitments due by limited partnerships controlled by the Company are fully funded from the sale of partnership units in these limited partnerships.

## Outstanding Share Data

The authorized capital consists of an unlimited number of common shares without par value. As at July 15, 2018, the following common shares, stock options, share purchase warrants and convertible debentures were outstanding:

	Number of shares	Exercise Price	Remaining Life (Years)
Common shares	78,888,540	-	-
Stock options	1,867,500	\$0.37 - \$0.86	0.99 – 4.67
Share purchase warrants	2,004,696	\$0.75	0.61 – 0.65
Convertible debentures	1,223,948	\$0.79	3.90
Fully diluted	83,984,684		

## Treasury Shares

The Company received approval from the TSX to a normal course issuer bid (“NCIB”), whereby the Company may purchase up to 2,000,000 of the Company’s common shares, subject to daily limits, anytime during the period beginning on December 14, 2017 and ending not later than on December 13, 2018, to a maximum aggregate acquisition cost of \$1,500,000. During the nine months ended May 31, 2018, the Company purchased 234,500 common shares at a cost of \$175,449, and subsequently to the date of this report the Company purchased an additional 10,000 common shares at a cost of \$7,305.

## FINANCIAL INSTRUMENTS RISK EXPOSURE

The Company's exposures to financial risks and how the Company manages each of those risks are described in Note 23 to the Company's audited consolidated financial statements for the year ended August 31, 2017. There were no significant changes to the Company's exposures to those risks or to the Company's management of its exposures during the three and nine months ended May 31, 2018 except as noted below.

### Liquidity risk

Cash and cash equivalents as at May 31, 2018 were \$10,565,166 (August 31, 2017 - \$6,880,384). At May 31, 2018 and August 31, 2017, the Company was in a working capital deficit position as described above under “Financial Position and Liquidity”.

### Borrowings

During the three and nine months ended May 31, 2018, agreements were executed for additional borrowings as follows. The borrowings are fixed interest loans and as such do not impact interest rate risk except for GEC<sup>®</sup> LP 8 borrowings which increased the risk only nominally.

- GEC<sup>®</sup> LP 1: \$10,000,000 loan maturing January 31, 2019 at a blended interest rate of 8.0% per annum, secured by a first mortgage over GEC<sup>®</sup> Project 1;
- GEC<sup>®</sup> LP 6: \$9,500,000 loan maturing December 1, 2018 at a blended interest rate of 8.6% per annum, where the LP has the right to extend the maturity date subject to certain conditions, secured by a first mortgage over GEC<sup>®</sup> Project 6.
- GEC<sup>®</sup> LP 8: \$21,000,000 loan maturing September 1, 2019, at prime plus 2% per annum, secured by a first mortgage over GEC<sup>®</sup> Project 8, and \$19,000,000 loan maturing December 15, 2019, at a blended interest rate of 10.7% per annum, reset monthly, subject to increases in the prime rate, secured by a second mortgage over GEC<sup>®</sup> Project 8.

### Commitments

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. Total commitments at May 31, 2018 did not vary significantly from August 31, 2017 balances presented in Note 22 to the Company’s consolidated financial statements for the year ended August 31, 2017, with the exception of the following. These commitments will be funded from the sale of partnership units to investors in various real estate limited partnerships and borrowings secured by mortgages and to such extent do not represent a net cash outflow for the Company.

- The commitment amount was recalculated at \$54,000,000 over the term of the current head leases from 2018-2026, with \$7,300,000 due in Fiscal 2018. A total commitment of \$73,350,000 was previously disclosed. This change did not impact the recognition of any financial statement balances. Furthermore, the Company expects that this commitment will decrease during Fiscal 2018 as certain head leases may be renegotiated.

- At May 31, 2018, a total of approximately \$437,187,000 (August 31, 2017 - \$289,650,000) has been committed by the limited partnerships of which the Company is an investor for the purchase of certain real estate developments, of which approximately \$39,000,000 is due under current agreements in the three months ending August 31, 2018, with the remainder payable within the next four fiscal years. At August 31, 2017, commitments were associated with GEC® Project 2 and GEC® Project 7. The new commitments in the nine months ended May 31, 2018 relate to the GEC® Project 9 PDA executed on February 28, 2018.

## TRANSACTIONS WITH RELATED PARTIES AND INVESTMENT PARTNERS

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. Transactions with related parties for goods and services are in the normal course of operations and are measured at the fair value. References to "GEC® Projects" below are references to the project held by the GEC® branded limited partnership associated with the student housing arm of the business.

The balances due from or to related parties include:

	May 31, 2018	August 31, 2017
Accounts receivable - Weifang University (1)	\$ 6,248,045	\$ 4,695,090
Accounts payable - Weifang University (1)	\$ 2,725,585	\$ 1,525,051
Due from officers, employees, directors and non-arm's length investors (2)	\$ 151,157	\$ 2,776,320
Due to officers, employees, directors and non-arm's length investors (4)	\$ 873,419	\$ 1,002,447

- CIBT has a business venture with Weifang University with a 60% interest in Beihai College. Beihai College is a Chinese Government approved college which has been in operation since 2002. There have been no changes in this arrangement since August 31, 2017.
- The amount due from officers, employees, directors and non-arm's length investors is comprised of the following:

	May 31, 2018	August 31, 2017
Due from Investor of GEC® Project 2 <sup>(1)</sup>	\$ -	\$ 635,000
Due from Beihai College <sup>(2)</sup>	151,157	179,398
Due from GEC® LP 4 <sup>(3)</sup>	-	1,961,922
	<u>\$ 151,157</u>	<u>\$ 2,776,320</u>

<sup>(1)</sup> Amount previously due from an investor in GEC® Project 2, which was non-interest bearing with no set terms of payment was repaid in the Third Quarter of Fiscal 2018.

<sup>(2)</sup> The amount due from Beihai College is non-interest bearing with no set terms of repayment.

<sup>(3)</sup> On January 31, 2018, one of the Company's wholly owned subsidiaries accepted a \$12,000,573 promissory note as lender associated with GEC® Project 4. Interest income of \$45,109 and \$148,215 was earned in the three and nine months ended May 31, 2018. The promissory note was settled on March 15, 2018.

- Promissory note due from developer of GEC® Project 5

GEC® LP 5 holds a promissory note due from the developer of Project 5 which is secured by personal guarantees of the directors of the developer. At May 31, 2018, the amount outstanding was \$712,746 (August 31, 2017 - \$930,149) and the note bears interest at 8% per annum, has scheduled repayments and is scheduled to be repaid on or about December 31, 2018.

- The amount due to officers, employees, directors and non-arm's length investors is comprised of the following:

	May 31, 2018	August 31, 2017
Due to officers and directors of the Company	\$ 22,048	\$ 67,548
Due to the President of IRIX	135,737	145,218
Due to Investors of GEC® Project 3	715,634	789,681
	<u>\$ 873,419</u>	<u>\$ 1,002,447</u>

The amount due to investors in GEC® Project 3 bears interest at 5% per annum and has no fixed terms of repayment. All other amounts due are non-interest bearing and have no fixed terms of repayment.

During the three and nine months ended May 31, 2018, the Company and its subsidiaries incurred a total of \$266,702 and \$653,107 (2017 - \$172,699 and \$803,091) for management fees and salaries paid to certain directors and officers employed by the Company and its subsidiaries.

## **ACCOUNTING MATTERS**

### **BASIS OF PRESENTATION**

The Company's unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRSs as issued by the IASB have been condensed or omitted.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended August 31, 2017. The accounting policies applied in the preparation of these unaudited condensed consolidated interim consolidated financial statements are consistent with those applied and described in Note 2 of the Company's audited consolidated financial statements for the year ended August 31, 2017.

### **CRITICAL JUDGEMENTS AND ESTIMATES**

The Company's management makes judgements in its process of applying the Company's accounting policies in the preparation of its condensed consolidated interim financial statements. In addition, the preparation of the financial data requires that the Company's management makes assumptions and estimates of the impacts of uncertain future events on carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates as the estimate process is inherently uncertain. The estimates and underlying assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

In preparing the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended May 31, 2018, the Company applied the critical judgements and estimates, including significant areas of estimation uncertainty in applying these policies, disclosed in Note 2 of its audited consolidated financial statements for the year ended August 31, 2017.

### **ACCOUNTING STANDARDS DEVELOPMENT**

#### **New accounting standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are disclosed in Note 2 of its audited consolidated financial statements for the year ended August 31, 2017. No new or amended IFRS pronouncements were adopted during the nine months ended May 31, 2018 with the exception of one annual improvement which does not impact the reported balances.

The revenue recognition standard IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") and financial instruments standard IFRS 9, *Financial Instruments* ("IFRS 9") are applicable to the Company commencing September 1, 2018. The Company is currently evaluating the potential impact of applying IFRS 15 on all its revenue streams. The Company has completed a preliminary assessment on the potential impact of applying IFRS 9 and does not expect changes to be significant.

#### Annual improvements

In December 2017, the IASB issued the 2015-2017 cycle Annual Improvements which included interpretation or narrow scope amendments to four standards. All amendments are effective for annual periods beginning on or after January 1, 2019, which apply to the Company commencing September 1, 2019. These amendments are not expected to have significant impact on the Company's consolidated financial statements.

## **OFF-BALANCE SHEET ARRANGEMENTS**

Various forms of security, in addition to a mortgage over lands, have been granted by the relevant limited partnership and by the Company and certain of its subsidiaries in favour of arm's length lenders in connection with the student housing projects. The security granted gives the lenders a comprehensive level of protection against a default by the borrower in the performance of its obligations including the repayment of the indebtedness and interest thereon.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES**

Management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company's internal controls over financial reporting or disclosure controls and procedures during the nine months ended May 31, 2018, that have materially affected, or are reasonably likely to have materially affected, the Company's internal controls over financial reporting.

## **RISKS RELATED TO THE COMPANY'S BUSINESS**

The Company's business, financial condition, operating results and prospects are subject to a number of risks and uncertainties which include but are not limited to the following:

- history of losses from operations
- fluctuation of real estate prices
- risks related to real estate project developments generally such as interest rates and construction delays due to factors including permit issuance, construction costs and construction labour market shortages
- slow-down of international students entering into Canada
- increased competition in the sectors in which the Company has investments
- rising construction cost
- need for additional capital to complete acquisitions and expand operations
- dependence on key personnel, the Company's facility providers and educational service providers
- ability to compete effectively with competitors that have greater financial, marketing and other resources
- ability to manage planned growth and integrate new business opportunities into existing operations
- risks involving the Chinese legal system, tax system, and foreign currency limitation
- risks related to government regulations and obtaining required approvals
- the possibility that personal information that the Company collects may be vulnerable to breach, theft or loss, which could subject the Company to liability or adversely affect its reputation and operations

A more detailed description of the above risks and uncertainties, and others, can be found under the heading "Risk Factors" in the Company's annual information form for Fiscal 2017 filed on SEDAR at [www.sedar.com](http://www.sedar.com). See also above under "Forward-Looking Information".