



**CIBT EDUCATION GROUP INC.**

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

**FOR THE YEAR ENDED AUGUST 31, 2019**

**CIBT EDUCATION GROUP INC.**  
(the “Company”)  
**MANAGEMENT’S DISCUSSION & ANALYSIS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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 consolidated financial statements and related notes for the year ended August 31, 2019 (the “**Annual 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. occupancy will remain virtually full while rental space under management is expected to grow: the underlying material factors or assumptions are that the Company’s own education subsidiaries and its partner schools will provide a steady supply of students into its student housing projects; that GEC<sup>®</sup> branded housing projects will remain the preferred choice for incoming students; and that the Company’s plans for the proposed GEC<sup>®</sup> real estate projects to accommodate 10,000 students over a five year period will be achieved;
2. the building permit(s) and expected construction commencement for GEC<sup>®</sup> King Edward II are expected in late Fiscal 2020: the underlying material factor or assumption is that the City of Vancouver will issue the applicable building permits on the approved development plan and according to the estimated timeline;
3. the rezoning process for GEC Education Mega Center<sup>®</sup> is expected to be completed in late 2019 to early 2020: the underlying material factor or assumption is that professional reports will be issued on time according to the plan for the rezoning process and the City of Surrey will approve a revised design of a slightly smaller building;
4. development fees are expected to be a recurring source of revenues: the underlying material assumption is that the Company’s student housing development business will continue to expand; and
5. the Company’s plans for the proposed GEC<sup>®</sup> real estate projects: 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 and development of the projects; 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.

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 revise 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” and elsewhere in the Company’s annual information form for the financial year ended August 31, 2019.

**All figures are in thousands of Canadian dollars except share and per share data unless otherwise noted.**

This MD&A has been prepared as of November 29, 2019. In this MD&A, the following terms have the meanings shown:

“**Fiscal 2020**” means the fiscal year ending August 31, 2020

“**Fiscal 2019**” means the fiscal year ended August 31, 2019

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

“**First Quarter of Fiscal 2020**” means the three months ending November 30, 2019

“**Second Quarter of Fiscal 2020**” means the three months ending February 29, 2020

“**Third Quarter of Fiscal 2020**” means the three months ending May 31, 2020

“**Fourth Quarter of Fiscal 2020**” means the three months ending August 31, 2020

“**First Quarter of Fiscal 2019**” means the three months ended November 30, 2018

“**Second Quarter of Fiscal 2019**” means the three months ended February 28, 2019

“**Third Quarter of Fiscal 2019**” means the three months ended May 31, 2019

“**Fourth Quarter of Fiscal 2019**” means the three months ended August 31, 2019

“**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 ended August 31, 2018

## **NON-IFRS FINANCIAL MEASUREMENTS**

The Company has included certain non-IFRS performance measures throughout this document including: (a) Earnings before Interest, Taxes, Depreciation and Amortization (“**EBITDA**”); and (b) Adjusted EBITDA which is EBITDA adjusted for the gain (loss) on change in fair value of the Company’s investment properties. These non-IFRS financial measurements do not have any standardized meaning as prescribed by 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. 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 have been provided throughout this MD&A.

**Date of Report – November 29, 2019**

**CIBT EDUCATION GROUP INC.**  
**MANAGEMENT’S DISCUSSION & ANALYSIS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**NATURE OF BUSINESS**

CIBT Education Group Inc. (the “**Company**” or “**CIBT**”) is an education and student housing development company focused on the global education market since 1994. The Company’s common shares are 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 a subsidiary of the Company acting as manager, that provide student housing in the Metro Vancouver area, British Columbia.

The Company’s operating entities are as follows:

<b>Legal / Operating Entity</b>	<b>Business Description</b>
Global Education City Holdings Inc. (“ <b>GECH</b> ”)	Investment holding and management company with a focus on student housing real estate projects such as serviced apartments and hotels for domestic and international students as well as technology professionals in the Metro Vancouver area in British Columbia.
Sprott Shaw College Corp. (“ <b>SSCC</b> ”)	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 (“ <b>SSLC</b> ”)	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.
Vancouver International College (“ <b>VIC</b> ”)	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. (“ <b>GEA</b> ”)	Recruitment of international students and on-ground concierge services for elite kindergarten, primary, secondary school and university students coming to study in North America.
CIBT School of Business & Technology Corp. (“ <b>CIBT China</b> ”)	College program provider offering automotive technical training, English teacher preparation, English as Second Language, and accounting programs in China.
IRIX Design Group Inc. (“ <b>IRIX</b> ”)	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 related real estate*: GECH; *Education*: SSCC, SSLC/VIC, GEA, and CIBT China; and *Media*: IRIX.

**FOURTH QUARTER AND FULL YEAR HIGHLIGHTS**

**2019 Convertible Debentures**

In May 2019, the Company issued Hong Kong dollar (“**HKD**”) denominated and Canadian dollar denominated convertible debentures (the “**2019 Debentures**”) and received proceeds in the aggregate principal equivalent sum of \$8,642. The 2019 Debentures mature in May 2021, subject to the Company’s exercise of a prepayment option or extension option as provided in the 2019 Debentures. At any time between four months after issuance and before maturity, the debenture holder can elect to convert all or part of the then outstanding principal sum into common shares of the Company at the conversion price set at issuance. Interest payments will be made quarterly or semi-annually at a rate of either 8% or 9% per annum as specified in 2019 Debentures.

**Real Estate Portfolio and Transactions**

See *Investment Property Fair Value* section below for explanation of recognition of gains or losses arising from changes in the fair value of investment property, the impact of which is referenced in each section. Except for GEC<sup>®</sup> Viva, the Company’s subsidiaries hold equity in and control the limited partnerships that beneficially own the land comprising the Company’s education related real estate projects.

### **GEC<sup>®</sup> King Edward II Nearing Construction (“Project 1”)**

In October 2017, the Project 1 limited partnership purchased the land for the future development of an investment property. In October 2019, the City of Vancouver approved the development plan and construction is currently estimated to commence in the Second Quarter of Fiscal 2020. At August 31, 2019, the fair value of the Project 1 was \$18,320. Since acquisition, on a cumulative basis, the Company has a net unrealized gain to date of \$1,453.

### **GEC<sup>®</sup> Pearson Fully Operational (“Project 2”)**

In the Fourth Quarter of Fiscal 2018, the Project 2 limited partnership purchased an investment property comprised of two six-story buildings for a purchase price of \$42,500. During the year ended August 31, 2019, a fair value gain of \$7,050 was recognized representing the increase in value for this property as a result of higher occupancy rate and income stabilization as compared to one year ago. During the year ended August 31, 2018, a fair value gain of \$33,205 was recognized representing the fair value of the property which was in excess of the purchase price. The substantial gain represents the strength of the Company’s unique serviced apartment proposition and the ability of management to structure value added investment opportunities in the Metro Vancouver real estate market.

### **Acquisition of GEC Education Mega Center<sup>®</sup> (“Project 7”)**

In April 2019, the Project 7 limited partnership (“GEC<sup>®</sup> LP 7”) and the developer amended the previously amended Purchase and Development Agreement (“LP7 PDA”). The LP7 PDA amendment provided for a modified building design; the sale of the land from the developer and for the developer to provide development Over the course of the project development. In August 2019, transactions contemplated under LP7 PDA, as amended, closed at the price agreed to in May 2017. See further discussion in Note 6(c) to the Annual Financial Statements. The total fair value of the investment property was \$49,340. A fair value gain of \$15,304 was recognized in the Fourth Quarter of Fiscal 2019.

The LP7 PDA amendment requires certain payments totalling \$12,130 to be made at certain building progress milestones to the previous developer, as vendor, the first of which will be paid if the City of Surrey approves the development plan. Given the nature of these payments they are classified as contingent liabilities and are not part of the purchase price of the land or a liability at August 31, 2019.

In connection with the asset acquisition GEC<sup>®</sup> LP 7 assumed the debt previously held by the developer on closing of the purchase.

The GEC<sup>®</sup> LP 7 will complete the Project, with the assistance of the previous developer, by contracting out the construction of the building. The rezoning application for the modified design was submitted in October 2019 and the Company currently expects construction to commence in early 2021 with Project completion in fiscal 2024. A total of \$6,877 of third-party financing capital to be used for deposits to the developer was raised during Fiscal 2018, resulting in earned development fees of \$1,377 in Fiscal 2018.

### **Global Education City<sup>®</sup> (Richmond) (“Project 9”)**

In January 2019, the Project 9 limited partnership (“GEC<sup>®</sup> LP 9”) entered into an amendment of the Purchase and Development Agreement (“LP9 PDA”) executed in February 2018 with the developer of Project 9. The parties agreed to amend the agreement by reducing the number of buildings to be purchased by GEC<sup>®</sup> LP 9. The purchase price was reduced from approximately \$218,000 to \$109,400. The amended LP9 PDA includes purchase price adjustment provisions which limit the cost overrun allowance to approximately \$8,200.

In March 2019, the final deposit requirement of \$5,000 was paid to the developer for a total of \$60,000 deposits paid pursuant to the amended LP9 PDA. The amended LP9 PDA also includes the provision that \$20,000 of the deposits will be returned to the purchaser in accordance with the terms of the amended agreement. GEC<sup>®</sup> LP 9 expects to receive \$20,000 of the deposit, plus interest accruing at 15% per annum commencing August 1, 2019, during the year ending August 31, 2020; however, per the terms of the agreement, only \$5,000 of this amount has been classified as a current receivable. Construction began in November 2018 and completion of the buildings is currently expected in fiscal 2023.

A total of \$10,799 of third-party equity financing capital to be used in the development of Project 9 was raised during Fiscal 2019 (Fiscal 2018 - \$44,453), resulting in earned development fees of \$1,905 in Fiscal 2019 associated with this project (Fiscal 2018 - \$9,143).

### **GEC® Oakridge (“Project 10”)**

In October 2018, a new limited partnership (“GEC® LP 10”) was formed. On November 1, 2018, GEC® LP 10 signed a purchase and sale agreement for the purchase of two parcels of land on which it planned to develop a high-rise rental property. However, as the conditions precedent to the purchase were not satisfied, this purchase agreement was terminated in December 2018. Deposit refunds of \$500 were received in January 2019.

In January 2019, a subsidiary of the Company entered into three separate purchase and sale agreements for the purchase of three adjoining parcels of land for a purchase price totaling \$30,300 on which the development of a high-rise serviced investment property is planned. The agreements include a provision to assign the land to GEC® LP 10 on closing. In April and June 2019, the purchase and sale agreements were amended to extend the conditions removal date and the closing date. Conditions were removed in the Fourth Quarter of Fiscal 2019 and the Company expects to complete the purchase of the lands in the Second Quarter of Fiscal 2020. During Fiscal 2019, the Company paid deposits to vendors of \$1,650. These deposits will be applied to the purchase price and are non-refundable if the purchase is not closed unless there is a breach of agreement terms by the vendors.

A total of \$12,038 of third-party financing capital to be used for the purchase of the land for Project 10 was raised during Fiscal 2019, resulting in earned development fees of \$2,442 in Fiscal 2019.

### **GEC® Kingsway**

In late June 2019, a wholly owned subsidiary of the Company signed a master lease with a Vancouver based real estate developer for a residential rental property to be constructed in Metro Vancouver. The lease is for a term of 21 years. The Company intends to also assist in the design, space planning, construction and furnishing of the property. Post construction, the Company intends to recruit tenants to fill approximately 350 beds to be located at this site, implement marketing and reservation systems and provide all amenities that are consistent with other GEC® properties. The rezoning process for the GEC® Kingsway project is close to finalization and the possession date is expected to be in late 2022.

### **GEC® Granville (“Project 8”)**

In November 2019, the Company entered into an agreement to sell the GEC® Granville property. The sale is expected to close in May 2020 subsequent to a number of conditions being satisfied, including finalizing an agreement for the Company to lease back the property for ten years and continue to operate the property under the GEC® brand.

### ***Investment Property Fair Value***

Investment properties are measured initially at cost, including transaction costs except where the investment property is purchased as part of a business combination. Subsequent to initial recognition, a company must choose as its accounting policy either the fair value model or the cost model and apply that policy to all of its investment property. The Company has chosen to apply the fair value model and as such is required to measure all of its investment property at fair value, with any gain or loss arising from a change in the fair value of investment property required to be recognised in net income (loss) in the period of change. For clarity, this means that changes in the fair value of an investment property are recognized in the financial statements of the Company at the end of each reporting period, as applicable. Therefore, when the property is sold, the carrying amount of the investment property includes fair value changes recognized in previous periods and as such in the period of sale only gains or losses above that carrying amount are realized in that period. In addition to obtaining independent appraisals on an annual basis, management also determines the fair value of investment property on a quarterly basis and as such, when the property is sold gains or losses on disposition are generally not significant.

Applying the cost model would result in no recognition of increases in the fair value of the property until the property was sold and would also result in depreciation of the buildings and equipment over their useful lives. The Company’s investment property is purchased to support the student housing arm of the business and the strategy is to hold buildings for between three to five years. Therefore, the Company believes that applying the fair value model presents a more accurate reflection of the value of these properties at the end of each reporting period compared to waiting to recognize these gains until exit. Historical record shows property values in Metro Vancouver have increased steadily over the past 42 years<sup>1</sup>.

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<sup>1</sup> [https://www.rebgv.org/content/dam/rebgv\\_org\\_content/pdfs/monthly-stats-packages/REBGV-Stats-Pkg-October-2019.pdf](https://www.rebgv.org/content/dam/rebgv_org_content/pdfs/monthly-stats-packages/REBGV-Stats-Pkg-October-2019.pdf)

**Investment Property Fair Value (cont'd)**

The following table summarizes the total, unrealized and realized fair value gains on investment property since the purchase closing date of each of the properties to August 31, 2019. The total gain is the amount recognized to date in the financial statements, the unrealized amount is denoted as such as the Company still holds the property, and the realized amount is the monetized amount on sale of the property. The fair value of investment properties at August 31, 2019 was \$201,450 (August 31, 2018 - \$144,670).

			Total gain		Unrealized		Realized
Revenue producing properties	Closing date	\$	45,807	\$	44,519	\$	1,288
GEC <sup>®</sup> Pearson	August 2018		40,255		40,255		-
GEC <sup>®</sup> Burnaby Heights <sup>(1)</sup>	October 2016		5,552		4,264		1,288
Properties under development	Closing date	\$	28,195	\$	28,195	\$	-
GEC <sup>®</sup> King Edward – land	October 2017		1,453		1,453		-
GEC <sup>®</sup> CyberCity – land <sup>(2)</sup>	September 2016		11,438		11,438		-
GEC <sup>®</sup> EMC – land	August 2019		15,304		15,304		-
Properties sold	Closing date	\$	17,477	\$	-	\$	17,477
GEC <sup>®</sup> Viva	August 2018		17,477		-		17,477

<sup>(1)</sup> Fair value gain realized on sale of commercial units of GEC<sup>®</sup> LP 5 in Fiscal 2018.

<sup>(2)</sup> Fair value gain recognized during Fiscal 2019 of \$3,406 (Fiscal 2018 and prior - \$3,393).

**INDUSTRY GROWTH PROSPECT**

According to 2019 U.S. News ranking, Canada has been ranked as the #3 best country for education in the world.<sup>1</sup> In recent years, Canada has experienced a huge increase in its international student count. The latest federal government data shows that Canada had just below 500,000 international students at the end of 2017. This growing population contributes more than \$15 billion to the Canada economy annually and supports over 170,000 Canadian jobs. Canada's international student population has almost tripled over the past decade. In 2014, the federal government set a goal to reach 450,000 international students in the country by 2022. The target has been achieved 5 years early and Canada now ranks fourth in the world behind the United States, United Kingdom and China in terms of its international student population.<sup>2</sup>

The Conference Board of Canada reports the surging international population is due to the demand for international education and increased wealth in emerging markets in Asia, Africa, and Middle East.<sup>3</sup> The Chinese Ministry of Education reported that 662,100 Chinese students studied abroad in 2018, a 9% annual growth from the 2017 figure.<sup>4</sup> Although China is the single largest student exporting country in the world, other major student exporting countries include India, South Korea, Japan, Spain, Saudi Arabia, Mexico and many other countries from Asia, Latin America and Middle East regions.

Canada offers one of the world's most attractive packages to international students as they are eligible to work part time to support their expenses and gain work experience. Upon completion of their programs, students may choose to apply for post-graduate work permits and are offered various immigration pathways to stay in Canada.<sup>5</sup> The high growth in demand from students in the emerging markets to study in countries like Canada, coupled with the Canadian government's support to attract more international students, presents the Company perfect opportunities to use its infrastructure to further expand its market share.

In British Columbia, where the majority of the Company's education and real estate assets are located, there are approximately 130,000 foreign students who are contributing over \$3.5 billion to the economy (2017).<sup>6</sup> The Company has

<sup>1</sup> <https://www.usnews.com/news/best-countries/best-education>

<sup>2</sup> <https://monitor.icef.com/2014/01/canadas-new-international-education-strategy-aims-for-450000-students-by-2022/>

<sup>3</sup> <https://www.conferenceboard.ca/commentaries/immigration/default/hot-topics-in-immigration/2018/04/09/why-are-international-students-flocking-to-canada>

<sup>4</sup> [http://en.moe.gov.cn/news/media\\_highlights/201904/t20190401\\_376249.html](http://en.moe.gov.cn/news/media_highlights/201904/t20190401_376249.html)

<sup>5</sup> [https://www.conferenceboard.ca/press/speech\\_oped/2018/04/05/huge-surge-in-international-students-coming-to-canada-to-study?AspxAutoDetectCookieSupport=1](https://www.conferenceboard.ca/press/speech_oped/2018/04/05/huge-surge-in-international-students-coming-to-canada-to-study?AspxAutoDetectCookieSupport=1)

<sup>6</sup> [https://archive.news.gov.bc.ca/releases/news\\_releases\\_2013-2017/2017AVED0018-000393.htm](https://archive.news.gov.bc.ca/releases/news_releases_2013-2017/2017AVED0018-000393.htm)

access to international students studying in Metro Vancouver through GEA's 100+ collaborative arrangements with various public and private schools as well as access to students through its schools in Canada and Asia. The Company plans for sufficient student-centric facilities to be built over a 10-year period to accommodate up to 10,000 students, which accounts for approximately 5% of the anticipated total international student population of approximately 200,000 students in Metro Vancouver by 2029. In addition, domestic students can also benefit greatly from the student-centric facilities as many schools in Metro Vancouver do not provide housing options for their students, and those that do provide housing services have a limited number of beds available. According to information released by the University of British Columbia, the waitlist for on-campus student residence was more than 6,000 as of September 2019.<sup>1</sup>

With the mandate of educating students via SSCC, while recruiting international students to study at SSLC and VIC and other partner schools, the Company continues to aim to provide students with an enhanced learning experience and housing options. SSLC and VIC resonate strategically with the Company's extensive experience in the global education markets as well as the industry growth trend.

The student housing market is an estimated \$1.12 billion market in British Columbia at an estimated average of \$10,000 per student.<sup>2</sup> The Company's potential target market is further expanded if domestic students are also accounted for in the number of students requiring housing in the Metro Vancouver area. The Company is striving to become more vertically integrated in order to capture the value of this market. The Company is actively working with developers to provide serviced apartments and hotels catering to both Canadian and international students and teaching faculty at various locations. As a secondary market, selected properties can also cater to visiting technology workers. Vancouver's technology sector is growing at a record rate of 14.5%. With 75,000 employees, the sector is now bigger than oil and gas, forestry, and mining-related activity in the region.<sup>3</sup>

## OUTLOOK FOR FISCAL 2020

### Education Business

The Company, via SSLC, completed the purchase of certain assets (the "KGIC assets" or "KGIC schools") from the trustee of KGIC Inc. in the third quarter of fiscal 2017. The benefit of purchasing the KGIC assets is twofold, adding both to the Company's education assets as well as to the pipeline for its student housing business. SSLC specializes in English language training and business career programs designed for international students. Under their previous ownership, the KGIC schools had an established global recruitment network with more than 1,400 agents located in 28 countries. SSCC and SSLC including VIC will continue to create synergies that will provide students with more options and choices for their future development.

SSCC continues to launch new programs as demand requires and expects to continue to partner with various educational institutions and enter into partnership cooperation agreements to provide pathways to its students to continue their education. All of these new ventures provide SSCC students with unique and exciting opportunities.

GEA, a subsidiary of the Company, has signed over 100 agreements to recruit international students for public and private schools in the kindergarten, primary, secondary, career colleges and university sectors. While providing services to education institutions, GEA also provides a variety of student services for international students including visa immigration consulting services via its licensed immigration consulting officers, landing service for newly arrived international students, placement service for accommodations, weekend excursions activities, tutoring, and school referral services. GEA is expecting to add more partner schools to widen its coverage to meet the increasing demand for its services and expertise from international students wishing to study in North America.

The addition of education assets, GEA's expansion, together with SSCC's long history (established in 1903) and renewed programs establish a more vertically integrated business model. The students at its partner institutions and its own subsidiaries provide a customer source for the Company's student housing business. Leveraging off the Company's existing agent and school network, GECH provides short-term and long-term housing solutions for students.

### Student Housing Arm

GECH, the student housing arm of the Company, expects to continue to expand both its student housing rental revenue and investment portfolio in Fiscal 2020. For rental revenue, GEC<sup>®</sup> Pearson, running at close to full occupancy starting

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<sup>1</sup> <https://www.cbc.ca/news/canada/british-columbia/ubc-nano-suites-move-in-day-1.5267186>

<sup>2</sup> <https://www2.gov.bc.ca/assets/gov/education/post-secondary-education/data-research/stp/stp-international-research-results.pdf>

<sup>3</sup> <http://www.theglobeandmail.com/news/british-columbia/bc-tech-sector-growing-so-fast-its-hard-to-measure-size-of-industry/article32953219/>

September 2019, adds 320 beds to the existing and growing GEC<sup>®</sup> portfolio. The Company's current projects under development include Global Education City<sup>®</sup> (Richmond), GEC<sup>®</sup> CyberCity (formerly GEC Education Super Center<sup>®</sup>), GEC Education Mega Center<sup>®</sup>, GEC<sup>®</sup> Oakridge and GEC<sup>®</sup> Kingsway.

These projects will not only strategically expand the GEC<sup>®</sup> footprint by acquiring attractive assets to generate strong long-term returns, but also contribute to the Company's development fee revenues throughout Fiscal 2020.

In addition, the Company plans to continue to utilize its existing student base from the education business and integrate the student base into GECH's student housing in Fiscal 2020. The Company's current aim is for the various limited partnerships in which it is an investor to provide 10,000 beds for students and faculty families over the next several years. Tenants in the student housing that come from diversified educational institutions and countries will mitigate specific institution and country risks. In the future, GECH's scalable real estate business is expected to benefit the Company in the following ways: development fee revenues, steady stream of rental revenue, ongoing management fees, fair value gains on investment property, and capital gains upon exit of projects.

## SELECTED ANNUAL INFORMATION

The following table details selected annual information for the three most recently completed fiscal years.

	For the years ended August 31,		
	2019	2018	2017
Total revenues	\$ 70,997	\$ 74,900	\$ 53,558
Cost of operations	\$ 30,723	\$ 28,907	\$ 24,143
Gross margin	\$ 40,274	\$ 45,993	\$ 29,415
Other operating expenses	\$ 36,496	\$ 34,468	\$ 26,077
Finance costs	\$ 6,594	\$ 5,636	\$ 2,640
Gain on change in fair value of investment properties	\$ 20,116	\$ 43,497	\$ 10,470
Other income (expense), net	\$ (1,213)	\$ 2,968	\$ (993)
Income before income taxes	\$ 16,087	\$ 52,354	\$ 10,175
Income tax expense	\$ 1,155	\$ 6,983	\$ 1,891
Net income	\$ 14,932	\$ 45,371	\$ 8,284
Income per share – CIBT shareholders			
Basic	\$ 0.03	\$ 0.25	\$ 0.03
Diluted	\$ 0.03	\$ 0.25	\$ 0.03
EBITDA [non-IFRS]	\$ 23,752	\$ 57,496	\$ 13,120
Total assets	\$ 389,670	\$ 340,835	\$ 166,918
Total non-current liabilities	\$ 113,824	\$ 95,392	\$ 30,208

Accounting policies under IFRS were consistently applied across all periods with the exception of the change from equity accounting to consolidation accounting for the limited partnership which previously owned the GEC<sup>®</sup> Granville project ("GEC<sup>®</sup> LP 4") at March 15, 2018 and the adoption of IFRS 15 and IFRS 9 as at September 1, 2018 which did not have a material impact on results.

**REVIEW OF ANNUAL FINANCIAL RESULTS**

The table below describes the financial performance of each main business unit (continuing operations) of the Company for Fiscal 2019 compared to Fiscal 2018.

	Year Ended August 31, 2019	Year Ended August 31, 2018	Absolute Change	Percentage Change
Total revenues	\$ 70,997	\$ 74,900	\$ (3,903)	(5)%
Total revenues net of direct costs – Overall (%)	57%	61%	(5)%	(8)%
Educational revenues – SSCC	\$ 35,433	\$ 34,384	\$ 1,049	3%
Educational revenues net of direct costs – SSCC (%)	62%	62%	1%	1%
Educational revenues – SSLC / VIC	\$ 13,865	\$ 12,985	\$ 880	7%
Educational revenues net of direct costs – SSLC / VIC (%)	41%	34%	7%	20%
Educational revenues – CIBT China	\$ 2,763	\$ 2,115	\$ 648	31%
Educational revenues net of direct costs – CIBT China (%)	43%	47%	(4)%	(9)%
Design and advertising revenues – IRIX	\$ 862	\$ 1,097	\$ (235)	(21)%
Design and advertising revenues net of direct costs – IRIX (%)	78%	77%	1%	1%
Commissions and referral fees – GEA	\$ 692	\$ 904	\$ (212)	(23)%
Commissions and referral fees net of direct costs – GEA (%)	34%	25%	9%	36%
Rental revenues – GECH	\$ 13,035	\$ 10,610	\$ 2,425	23%
Rental revenues net of direct costs – GECH (%)	46%	50%	(5)%	(9)%
Development fees – GECH and Corporate	\$ 4,347	\$ 12,805	\$ (8,458)	(66)%
Other operating expenses	\$ 36,496	\$ 34,468	\$ 2,028	6%
Finance costs and finance fee expenses	\$ 6,594	\$ 5,636	\$ 958	17%
Gain on change in fair value of investment properties	\$ 20,116	\$ 43,497	\$ (23,381)	(54)%
Other income (expense), net	\$ (1,213)	\$ 2,968	\$ (4,181)	(141)%
Income before income taxes	\$ 16,087	\$ 52,354	\$ (36,267)	(69)%
Net income	\$ 14,932	\$ 45,371	\$ (30,439)	(67)%
Income per share – CIBT shareholders - basic	\$ 0.03	\$ 0.25	\$ (0.22)	(88)%
Income per share – CIBT shareholders - diluted	\$ 0.03	\$ 0.25	\$ (0.22)	(88)%
EBITDA [Non-IFRS]	\$ 23,752	\$ 57,496	\$ (33,744)	(59)%

**For the year ended August 31, 2019 compared to the year ended August 31, 2018**

The decrease in revenues resulted mainly from a decrease in development fees revenues of \$8,458 offset by increased educational revenues of \$2,577 and increased rental revenues associated with the student housing arm of \$2,425. Direct costs associated with revenues increased by \$1,816. Other operating expenses increased by \$2,028 mainly attributable to increased general and administration expenses. The Company realized fair value gains on investment properties of \$20,116 in Fiscal 2019 compared to \$43,497 in Fiscal 2018.

**Educational**

Educational revenues predominately consist of tuition fees, sales of textbooks, supplies and related items, and other non-training services, which includes registration and administration fees. Deferred education revenues at August 31, 2019 were \$22,416 (2018 - \$23,435) which primarily represents revenues which will be recognized as programs are provided over the next one to two fiscal years depending on the various type of programs.

- SSCC revenues increased by 3% with the various revenues sources within this category increasing or decreasing based on: (a) tuition revenues which are based on the varying mix of tuition charged to students for the various programs and additional deferred education revenues earned in the year from increased student base in prior years; (b) level of

textbook revenue; and (c) level of non-training revenue. Margins remained consistent in Fiscal 2019 compared to Fiscal 2018.

- SSLC/VIC revenues increased by 7% in Fiscal 2019 compared to Fiscal 2018 and the Company continued to attract more students and integrate and expand the product offerings of this division. Margins increased year over year as the Company realized the benefit of the integration of KGIC assets purchased in fiscal 2017.
- CIBT China's revenues increased in Fiscal 2019 compared to Fiscal 2018 and fluctuated based on the number of programs offered and revenues per student, the number of students, and the impact of exchange differences between the RMB and the Canadian dollar during the year. Margins decreased as revenue per student decreased and costs associated with providing services increased.

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

- Rental revenues increased in Fiscal 2019 compared to Fiscal 2018 due to: increased rental revenues for the GEC<sup>®</sup> Viva property associated with increased available rental space and occupancy since renovations were completed in November 2017; and new rental revenues from the GEC<sup>®</sup> Pearson property which started to generate rental revenues at the end of August 2018. Rental revenues for GEC<sup>®</sup> Pearson grew starting in the Second Quarter of 2019 with a large increase in the Fourth Quarter of 2019.
- Direct costs increased predominately from increased salaries and other costs associated with operating serviced apartments as the bed count increased, offset by lower rent expense. Margins on rental operations decreased in Fiscal 2019 due to the lease up of GEC<sup>®</sup> Pearson. In general, rental revenue of a new serviced apartment takes an average of six to 12 months to stabilize. During lease-up, a serviced apartment's rental margin is lower than when the operation has stabilized. Despite the decrease, the margins were positively impacted by a change from equity accounting to consolidated accounting for GEC<sup>®</sup> Granville on March 15, 2018.
- Development fee revenues are a result of the Company's efforts in identifying, securing, and structuring student centric serviced apartments as well as education centre investments. During Fiscal 2019, development fee revenues earned were associated with Global Education City<sup>®</sup> (Richmond) and GEC<sup>®</sup> Oakridge. During Fiscal 2018, development fee revenues earned were associated with Global Education City<sup>®</sup> (Richmond) and GEC Education Mega Center<sup>®</sup>. All costs associated with earning development fees revenues are included in general and administrative costs. The timing of recognition of development fee revenues are dependent on when qualified subscribers invest in the real estate investment limited partnerships the timing of which depends on the individual project, with the majority of investments occurring at the beginning of the project.

### **Design and advertising business**

Fiscal 2019 revenues of IRIX decreased from Fiscal 2018 as the result of the mix of contracts and rates earned to produce marketing materials for the real estate sector. IRIX services customers in Metro Vancouver and also serves as the marketing department of the Company. IRIX revenues fluctuate based on the number and type of contracts which is impacted by the strength of the residential real estate market in each of the areas serviced. Margins depend on the nature of the work and vary depending on the type of projects in a given reporting period.

### **Commissions and referral fees**

Fiscal 2019 revenues of GEA decreased compared to Fiscal 2018 and decreased in the Fourth Quarter of Fiscal 2019 compared to the prior comparative quarter. Revenue per student depends on the nature of the activity during the year. Margins are impacted depending on the type of course in which the students are enrolled, with certain courses having higher direct costs and lower margins.

### **Other operating costs (G&A, Amortization and Share-based payment expense)**

- General and administrative expenses increased by \$1,559 from increased salaries and benefits, professional fees, office and general expenses and credit loss allowances associated with the adoption of IFRS 9, offset by decreases in consulting and management fees which fluctuate based on the Company's transaction activity.
- Amortization of property, equipment and intangible assets, which are non-cash expenses, increased over the comparable period associated with depreciation on the GEC<sup>®</sup> Granville building purchased in March 2018, and other purchases of furniture for the Company's education and real estate business.

### Finance costs

- Finance costs (interest) and finance fees (accretion of deferred finance fees and other) in Fiscal 2019 were \$6,594 compared to \$5,636 in Fiscal 2018. Revenue-producing and properties under development investment property are financed by secured loans at various interest rates and during Fiscal 2019, borrowings increased by approximately \$22,500 on a net basis, with the weighted average interest rate increasing to 6.93% from 6.61%. During the Fourth Quarter of Fiscal 2019, finance costs and fees were \$1,664 compared to \$1,948 for the comparative quarter. The Company recorded a gain on the change in fair value of embedded derivatives within certain 2019 Debentures of \$475. These derivatives are remeasured each reporting period end with changes in fair value recorded in net income (loss).

### Fair value changes on investment property

- During Fiscal 2019, the Company recognized total fair value gains of \$20,116 as described in *Fourth Quarter and Full Year Highlights* – with fair value gains associated with Project 2, Project 6 and Project 7 and fair value losses for Project 1 and GEC® Burnaby Heights.

### Other income (expense), net

Other income (expense), net includes interest and other income, foreign exchange gains or losses, costs associated with business combinations, equity investee income (losses), gains or losses on disposal of assets, and impairment charges on intangible assets or goodwill. Interest income is earned on amounts due under interest bearing contracts.

- Interest and other income for Fiscal 2019 was \$620 compared to \$2,071 in Fiscal 2018. In the Fourth Quarter of Fiscal 2018 the Company earned a non-recurring interest amount of \$1,032 on the deposits provided in fiscal 2015 to the developer of GEC® Pearson.
- During Fiscal 2018, the Company recognized non-recurring transactions totaling \$2,219 including the sale of GEC® Viva, sale of commercial units of GEC® Burnaby Heights, and the GEC® Granville business combination gain on step acquisition and related business acquisition costs.
- In the Fourth Quarter of Fiscal 2019, the Company recognized a non-cash goodwill impairment charge of \$1,300 associated with one of its cash generating units as a result of the annual goodwill impairment test. The Company also identified certain indefinite live intangible assets that no longer held value and as such in the year ended August 31, 2019 the Company wrote off \$382 of these assets (year ended August 31, 2018 - \$660).

### Income Taxes

During Fiscal 2019, income tax expense was \$1,155 (2018 - \$6,983) comprised of current tax expense recovery of \$4,484 offset by deferred tax expense provision of \$5,639. The current tax recovery was mainly the result of an operating loss for the corporate head office and the realization of a capital loss on wind-up of a wholly owned limited partnership. The deferred tax expense was the result of deferred income taxes on operating income of subsidiaries and fair value gains of certain investment property. The decrease in income tax expense in Fiscal 2019 was the result of lower operating income, lower fair value gains on investment property and the realization of a capital loss on wind-up of a limited partnership. During Fiscal 2018, income tax expense resulted mainly from operating income, the sale of investment property and the increase in fair value of certain investment property.

**QUARTERLY FINANCIAL REVIEW**

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

	Quarter Ended August 31, 2019 (Fourth Quarter) (\$)	Quarter Ended May 31, 2019 (Third Quarter) (\$)	Quarter Ended February 28, 2019 (Second Quarter) (\$)	Quarter Ended November 30, 2018 (First Quarter) (\$)
Total revenues – Continuing operations <sup>(1)</sup>	22,238	16,138	15,555	17,066
Net income	9,244	295	3,206	2,188
Net income (loss) - CIBT Education Group Inc. shareholders	535	1,032	(132)	1,179
Income (loss) per share - CIBT Education Group Inc. shareholders – basic and diluted	0.01	0.01	(0.00)	0.02

	Quarter Ended August 31, 2018 (Fourth Quarter) (\$)	Quarter Ended May 31, 2018 (Third Quarter) (\$) <sup>(2)</sup>	Quarter Ended February 28, 2018 (Second Quarter) (\$) <sup>(2)</sup>	Quarter Ended November 30, 2017 (First Quarter) (\$) <sup>(2)</sup>
Total revenues – Continuing operations <sup>(1)</sup>	20,204	22,835	17,657	14,204
Net income	28,725	7,958	1,824	6,864
Net income - CIBT Education Group Inc. shareholders	8,173	8,499	2,586	784
Income per share - CIBT Education Group Inc. shareholders – basic and diluted	0.10	0.11	0.03	0.01

<sup>(1)</sup> No discontinued operations in the quarterly information presented.

<sup>(2)</sup> As described in Note 5 to the Company's consolidated financial statements for the year ended August 31, 2019, the Company purchased certain assets from the trustee of KGIC Inc. in March 2017 that were accounted for as a business combination. A preliminary purchase price allocation was determined in the third quarter of fiscal 2017 and, as required under IFRS, was finalized during the measurement period which ended in the Third Quarter of Fiscal 2018, resulting in changes to certain identifiable assets and liabilities that when applied as of the date of the original business combination impacted these financial results for all of the periods noted.

Total revenues from continuing operations are predominately driven by: (a) educational revenues; (b) rental revenues; (c) development fee revenues; and (d) revenues from other lines of business. Education revenues have increased since the acquisition of certain KGIC assets in March 2017. Education revenues generally increase in the month of September but overall revenues are not seasonal as programs run throughout the year.

Rental revenues generally increase as more housing units become available which occurs when new real estate projects are acquired or when the construction of a project is completed. In addition to the real estate transactions described in the section above *Fourth Quarter and Full Year Highlights*, in August 2018, the GEC<sup>®</sup> Viva investment property was sold to a third-party and a subsidiary of the Company leased the building back for continued use to support its student housing business. Rental rate increases across all properties result in increased revenues. In March 2018, the GEC<sup>®</sup> Granville property, which was previously held by a limited partnership in which the Company held an interest, was purchased by a new limited partnership ("GEC<sup>®</sup> LP 8"). As of March 15, 2018, the Company controls GEC<sup>®</sup> LP 8 and all operations are consolidated.

The timing of recognition of development fee revenues depends on the timing of investment by third parties into real estate investment limited partnerships, which is driven by the status and magnitude of the real estate projects portfolio. Development fees for Fiscal 2019 by quarter starting with the first quarter were: \$819; \$953; \$381; and \$2,194 (Fiscal 2018 - \$nil; \$3,642; \$8,020; and \$1,143). Development fees are expected to be a recurring source of revenues as the Company continues to expand its development business. Projects such as Global Education City<sup>®</sup> (Richmond), GEC Education Mega Center<sup>®</sup> and GEC<sup>®</sup> Oakridge involve development and construction timelines spanning several years and require substantial equity investment with development fees being earned over several quarters.

Quarterly results also fluctuate due to the timing of recognition of fair value gains on investment property, which depend on the operating performance, real estate market, and also the timing of purchase of a project. Each quarter, the value of the investment property portfolio is assessed and may result in fair value changes which the Company expects to be in the form of fair market value gains. Annually, the Company engages external qualified appraisers to value the investment properties. During Fiscal 2019, total net fair value gains of \$20,116 were recognized with gains for the First Quarter of Fiscal 2019 to Fourth Quarter of Fiscal 2019 being: \$3,100; \$5,000; \$nil; and \$12,016 (Fiscal 2018 total of \$43,497 – with gains for First Quarter of Fiscal 2018 to Fourth Quarter of Fiscal 2018 being: \$8,634; \$nil; \$nil; and \$34,863).

Net income (loss) fluctuates based on changes in margins across all operating segments, the timing of recognition of fair value gains on investment property and the timing of recognition of development fee revenues. Development fee revenues and net fair market value gains result in higher net income as associated costs of earning such revenues are less than other types of revenue. Net income (loss) attributable to the Company's shareholders varies depending on the net income (loss) in the quarter and the portion attributable to the Company's non-controlling interests.

Accounting policies under IFRS were consistently applied across all periods except for: (1) the change from equity accounting to consolidation accounting for GEC<sup>®</sup> LP 4 at March 15, 2018; and (2) the adoption of IFRS 15 and IFRS 9 on September 1, 2018 as referenced in the section *Basis of Presentation and Accounting Policies* of this document.

#### Fourth Quarter of Fiscal 2019 compared to Fourth Quarter of Fiscal 2018

The table below describes the financial performance of each main business unit (continuing operations) of the Company for the Fourth Quarter of Fiscal 2019 compared to the Fourth Quarter of Fiscal 2018.

	Quarter Ended August 31, 2019	Quarter Ended August 31, 2018	Absolute Change	Percentage Change
Total revenues	\$ 22,238	\$ 20,204	\$ 2,034	10%
Total revenues net of direct costs – Overall (%)	60%	59%	1%	2%
Educational revenues – SSCC	\$ 9,630	\$ 8,420	\$ 1,210	14%
Educational revenues net of direct costs – SSCC (%)	62%	64%	(2)%	(3)%
Educational revenues – SSLC / VIC	\$ 5,176	\$ 5,780	\$ (604)	(10)%
Educational revenues net of direct costs – SSLC / VIC (%)	44%	38%	6%	17%
Educational revenues – CIBT China	\$ 442	\$ 323	\$ 119	37%
Educational revenues net of direct costs – CIBT China (%)	40%	43%	(2)%	(6)%
Design and advertising revenues – IRIX	\$ 165	\$ 257	\$ (92)	(36)%
Design and advertising revenues net of direct costs – IRIX (%)	71%	84%	(12)%	(15)%
Commissions and referral fees – GEA	\$ 122	\$ 224	\$ (102)	(46)%
Commissions and referral fees net of direct costs – GEA (%)	(25)%	26%	(50)%	(196)%
Rental revenues – GECH	\$ 4,509	\$ 4,057	\$ 452	11%
Rental revenues net of direct costs - GECH (%)	58%	68%	(10)%	(15)%
Development fees – GECH and Corporate	\$ 2,194	\$ 1,143	\$ 1,051	92%
Other operating expenses	\$ 10,598	\$ 9,946	\$ 652	7%
Finance costs and finance fee expenses	\$ 1,664	\$ 1,948	\$ (284)	(15)%
Gain on change in fair value of investment properties	\$ 12,016	\$ 34,862	\$ (22,846)	(66)%
Other income (expense), net	\$ (1,949)	\$ 787	\$ (2,736)	(348)%
Income before income taxes	\$ 11,125	\$ 35,708	\$ (24,583)	(69)%
Net income	\$ 9,244	\$ 28,725	\$ (19,481)	(68)%
EBITDA [non-IFRS]	\$ 12,788	\$ 36,788	\$ (24,000)	(65)%

Net income was \$9,244 for the Fourth Quarter of Fiscal 2019 compared to net income of \$28,725 for the Fourth Quarter of Fiscal 2018. As described under *Review of Annual Financial Results*, there were substantial gains arising from changes in the fair value of investment property, with \$12,016 of this gain recorded in the Fourth Quarter of Fiscal 2019 compared to \$34,862 of the fair value gain in the Fourth Quarter of Fiscal 2018. In addition, the increase in net revenues was also driven by increases in educational revenues of \$725, rental revenues of \$452, and development fee revenues of \$1,052. Direct costs increased by \$612. General and administrative expenses remained consistent with the prior year. Income tax expense decreased by \$5,102 in the Fourth Quarter of Fiscal 2019 versus the comparative year as described in the section *Review of Annual Financial Results – Income Taxes*.

### **Educational**

- SSCC revenues increased by 14% with the various revenue sources within this category increasing or decreasing based on: (a) tuition revenues which are based on the varying mix of tuition charged to students for the various programs and additional deferred education revenues earned in the year from increased student base in prior years; (b) level of textbook revenue; and (c) level of non-training revenue. Margins decreased as the result of higher revenue from certain programs which have higher teaching costs.
- SSLC/VIC revenues decreased by 10% in Fiscal 2019 because SSLC closed its Surrey campus in its efforts to reduce operating costs. Margins increased year over year as the Company realizes the benefit of the integration of the KGIC assets.
- CIBT China's revenues increased in Fiscal 2019 and fluctuate based on the number of programs offered and revenues per student, the number of students, and the impact of exchange differences between the RMB and the Canadian dollar during the year. Margins decreased as revenue per student decreased and costs associated with providing services increased.

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

- Rental revenues increased Fourth Quarter of Fiscal 2019 predominately as the result of new rental revenues from GEC<sup>®</sup> Pearson. This building was purchased at the very end of August 2018 and there were no significant revenues during the Fourth Quarter of Fiscal 2018. These increases were offset by small decreases in the other rental buildings.

Rental revenues will fluctuate based on rental space available and the occupancy rate in those rental buildings. The Company expects rental revenues to increase as the GEC<sup>®</sup> student housing business grows and the number of beds available for rent increases. Margins on rental revenues decreased as the result of an increase in direct costs. As new properties become operational fixed overhead costs are higher in proportion to rental revenues, and as occupancy stabilizes margins are expected to increase. The majority of the direct cost increase relates to payments under a head lease to the new owner of GEC<sup>®</sup> Viva and also costs associated with GEC<sup>®</sup> Pearson. Salaries increased associated with more staff to manage the rental properties.

- During the Fourth Quarter of Fiscal 2019, development fee revenues earned were associated with GEC<sup>®</sup> Oakridge. During the Fourth Quarter of Fiscal 2018, development fee revenues earned were associated with Global Education City<sup>®</sup> (Richmond). All costs associated with earning development fees are included in general and administrative costs.

### **Other operating costs (G&A, Amortization and Share-based payment expense)**

- General and administrative expenses increased nominally from increased salaries and benefits, professional fees, office and general expenses and credit loss allowances associated with the adoption of IFRS 9, offset by decreases in consulting and management fees and rent expense.

### **Other income (expense), net**

Given the non-recurring nature of certain of the recognized amounts in this financial statement category, fluctuations between comparative years are expected. During the Fourth Quarter of Fiscal 2019, the Company recognized a non-cash impairment expense of \$1,300 related to goodwill and \$382 related to indefinite life intangible assets compared to \$660 of intangible impairment in the Fourth Quarter of Fiscal 2018.

**FINANCIAL POSITION AND LIQUIDITY**

The following table compares selected financial position information as at August 31, 2019 and August 31, 2018:

	August 31, 2019	August 31, 2018	Dollar Change	Percentage Change
Cash and cash equivalents	\$ 15,213	\$ 33,246	\$ (18,033)	(54)%
Trade and other receivables	\$ 21,319	\$ 19,190	\$ 2,129	11%
Total current assets	\$ 50,524	\$ 55,167	\$ (4,643)	(8)%
Investment property	\$ 201,450	\$ 144,670	\$ 56,780	39%
Property and equipment	\$ 61,416	\$ 62,278	\$ (862)	(1)%
Other non-current assets	\$ 76,280	\$ 78,720	\$ (2,440)	(3)%
Total assets	\$ 389,670	\$ 340,835	\$ 48,835	14%
Trades and other payables	\$ 16,248	\$ 16,597	\$ (349)	(2)%
Deferred revenues	\$ 23,177	\$ 23,573	\$ (396)	(2)%
Total current liabilities	\$ 81,692	\$ 73,792	\$ 7,900	11%
Working capital surplus (deficit) – see below	\$ (31,168)	\$ (18,625)	\$ (12,543)	(67)%
Total non-current liabilities	\$ 113,824	\$ 95,392	\$ 18,432	19%
Equity – CIBT Education Group Inc. shareholders	\$ 51,448	\$ 49,440	\$ 2,008	4%
Total equity	\$ 194,154	\$ 171,651	\$ 22,503	13%

As described in the *Fourth Quarter and Full Year Highlights* summary, total assets increased mainly as the result of an increase in the carrying value of investment properties of \$56,780 which included the purchase of Project 7 and \$20,116 of gains on changes in fair value of certain investment property, \$2,072 of capitalized borrowing costs, and capitalization of other development expenses. Cash and cash equivalents decreased at August 31, 2019 as explained in the cash flow section below. The trade and other receivables balance at August 31, 2018 included \$5,415 of funds associated with the GEC® Burnaby Heights commercial unit sale which were received in September 2018 and used to repay a portion of the secured loans. Income taxes receivable of \$3,570 also increased the balance of total current assets. The decrease in other non-current assets was predominately associated with increased deposits paid on properties under development and decreased deferred tax assets.

Total liabilities at August 31, 2019 increased by \$26,332 from August 31, 2018 due to increased borrowings for real estate projects and issuance of the 2019 Debentures, increased deferred income taxes liabilities of \$3,421, offset by decreases of \$4,891 in current income taxes payable. Despite the negative working capital position, management believes that CIBT will continue to meet obligations as they become due as they have successfully renegotiated borrowings classified as current which comprise the majority of the working capital deficiency. See section *Risk Management, Liquidity Risk* for further explanation. Negative working capital is predominately driven by the following.

- Borrowings that when classified as current do not match the non-current classification of the Company's real estate property interests included investment property and property and equipment. At the end of each reporting period, secured loans are classified as current or non-current depending on date of maturity. The total amount of borrowings in each classification fluctuate as a function of timing of funding and repayment dates. The current portion of borrowings increased by \$13,536 at August 31, 2019 compared to August 31, 2018. The Company has demonstrated that it is able to secure financing on reasonable terms.
- In June 2019, Project 1 received new funding in the amount of \$11,750, which was partially used to repay the existing \$10,000 loan. At August 31, 2019, \$3,750 of the new loan is classified as current. In addition, the Company refinanced the \$40,000 of debt held by Project 8 with new debt classified as non-current. The Company also assumed \$27,000 of new debt associated with the purchase of land for Project 7 which was classified as current and is expected to be refinanced in the year ending August 31, 2020.
- The majority of deferred revenues represents an obligation to provide services to students at future dates at which time revenues will be recognized. Some portion of this liability is not offset by amounts receivable from students.

**Analysis of Cash Flows**

The following table summarizes the Company's cash flow activity. The Company's operations have been financed primarily through internal cash flow, third-party secured loans and other financing and contributions from non-controlling interests in limited partnerships controlled by the Company. Liquidity of the Company is discussed under the section *Risk Management, Liquidity Risk*.

	Year Ended August 31, 2019	Year Ended August 31, 2018	Dollar Change	% Change
Cash flows (used in) provided by operating activities	\$ (9,762)	\$ 19,870	\$ (29,632)	(149)%
Cash flows (used in) investing activities	\$ (14,421)	\$ (61,405)	\$ 46,984	(77)%
Cash flows provided by financing activities	\$ 6,207	\$ 67,900	\$ (61,693)	(91)%
Effects of exchange rate changes on cash and cash equivalents	\$ (57)	\$ 1	\$ (58)	nm
(Decrease) increase in cash and cash equivalents	\$ (18,033)	\$ 26,366	\$ (44,399)	(168)%
Cash and cash equivalents, beginning of period	\$ 33,246	\$ 6,880	\$ 26,366	383%
Cash and cash equivalents, end of period	\$ 15,213	\$ 33,246	\$ (18,033)	(54)%

During Fiscal 2019, the Company used \$9,762 in cash from operating activities compared to the generation of \$19,870 in cash for Fiscal 2018 with the decrease due to lower operating income and a decrease in non-cash working capital. Net changes in non-cash working capital in Fiscal 2019 was a net use of cash mainly from increases in trade and other receivables of \$8,043 and a decrease in income taxes payable of \$8,461. Net changes in non-cash working capital for Fiscal 2018 was a net source of cash mainly from an increase in income taxes payable of \$4,796, increase in deferred revenues of \$5,121, increase in accounts payable, accrued liabilities and other payables of \$7,230, offset by a increase in accounts receivable of \$3,477. Cash flows from operating activities can vary significantly from period to period as a result of the Company's working capital requirements associated with its real estate projects and timing of receipt of development fee revenues.

Cash used in investing activities for Fiscal 2019 was associated mainly with deposits of \$12,150 paid to parties to in real estate transactions total paid of \$1,216 for the purchase of property and equipment and items associated with the investment properties, and the prepayment of agency fees of \$1,216. In addition, cash of \$3,536 and the assumption of \$27,000 of debt was used to purchase the GEC Education Mega Center<sup>®</sup> property in August 2019. These uses of cash were offset by the receipt in September 2018 of \$5,415 of the proceeds on the sale of GEC<sup>®</sup> Burnaby commercial units. During Fiscal 2018, the Company used cash to pay deposits of \$52,000 to developers for Global Education City<sup>®</sup> (Richmond) and GEC Education Mega Center<sup>®</sup>, acquire the GEC<sup>®</sup> King Edward II investment property including payment of development fees, acquire a controlling interest in GEC<sup>®</sup> Granville net of cash acquired, prepay agency fees of \$1,454 and purchase additional furniture for rental properties.

Cash provided by financing activities for Fiscal 2019 was mainly the result of \$8,758 of net non-controlling interest capital contributions and the cash flows associated with new debt financings and the issuance of the 2019 Debentures offset by \$2,072 of interest costs which were capitalized and \$1,832 of cash paid to repurchase treasury shares. Note 26 of the Annual Financial Statements provides additional detail of the change in borrowings including cash and non-cash related items for the current and comparative period.

Cash provided by financing activities for Fiscal 2018 was mainly the result of \$49,349 of net non-controlling interest capital contributions, offset by \$11,797 in advances the Company made to related parties most of which was associated with advances to GEC<sup>®</sup> LP 4 to extinguish existing debt held by GEC<sup>®</sup> LP 4 in advance of the GEC<sup>®</sup> Granville business combination.

## CAPITAL MANAGEMENT

The Company's objectives in managing capital are to safeguard the Company's normal operating requirements on an ongoing basis and to ensure sufficient liquidity to conduct its strategy of organic growth in conjunction with strategic acquisitions, and to utilize capital to provide an appropriate return on investment to its shareholders. The Company's overall capital strategy remains unchanged from prior years. The capital of the Company consists of: (a) net debt calculated as total borrowings less cash and cash equivalents of \$128,938 (2018 - \$82,358), and (b) shareholders' equity excluding non-controlling interests of \$51,448 (2018- \$49,440). To maintain or adjust the capital structure, the Company, from time to time, may issue new shares, issue new debt, repay debt or dispose of non-core assets. The Company monitors its capital using various financial ratios and non-financial performance indicators. The Company's primary uses of capital are to finance working capital requirements, capital expenditures and acquisitions. The Company expects current capital resources will be sufficient to carry out the expansion plans and support operations through the current operating period.

### Outstanding Share Data

The authorized capital consists of 150,000,000 common shares without par value. As at November 29, 2019, the following common shares, stock options, share purchase warrants and convertible debenture conversion options were outstanding:

	Number of shares	Exercise Price	Remaining Life (Years)
Common shares	76,532,540	-	-
Stock options	2,422,500	\$0.37 - \$0.86	1.64 – 4.11
2017 convertible debentures	833,327	\$0.79	2.52
2019 convertible debentures <sup>(1)</sup>	10,407,750	\$0.78 to \$0.85	1.47
Fully diluted	90,196,117		

<sup>(1)</sup> Exercise prices denominated in HKD converted into Canadian dollars.

### Treasury Shares

In December 2018, the Company received approval from the TSX to commence 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, 2018 and ending no later than December 13, 2019, to a maximum aggregate acquisition cost of \$2,000. Effective August 30, 2019, the TSX approved the change of this NCIB from a maximum of 2,000,000 common shares to 3,910,000 common shares and from an aggregate acquisition cost of \$2,000 to \$3,000. During Fiscal 2019, the Company repurchased for future cancellation, from the current NCIB and a prior one, 2,721,500 common shares and cancelled 1,760,000 treasury shares. On April 25, 2019, the Company suspended its NCIB in advance of the offering of the 2019 Debentures and resumed the NCIB on June 13, 2019. From September 1, 2019 to the date of this report, the Company repurchased an additional 646,500 of its common shares, resulting in 1,991,500 treasury shares held for cancellation.

## RISK MANAGEMENT

The Company's risks related to financial instruments, including liquidity risk, credit risk, interest rate risk and currency risk, and the Company's strategy to manage risks, are described below. This is not intended to be a comprehensive discussion of all risks.

### **Liquidity risk**

The Company is exposed to liquidity risk which is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due in the normal course of business. The Company manages its liquidity risk by monitoring its operating requirements. Cash and cash equivalents as at August 31, 2019 were \$15,213 (August 31, 2018 - \$33,246). At August 31, 2018, the cash balance included approximately \$16,000 associated with the disposal proceeds of GEC<sup>®</sup> Viva, of which approximately \$12,000 was distributed to the limited partners after August 31, 2018. In addition, the Company has an undrawn demand operating credit facility of \$2,500. The Company has successfully raised capital financing and anticipates it could do so in the future; however, there is no assurance that such financing will be available on favourable terms or at all. Management prepares budgets and cash forecasts to ensure that the Company has sufficient funds to fulfill its financial obligations. The changes in the cash operating, investing and financing cash flows are detailed under section FINANCIAL POSITION AND LIQUIDITY above.

**(a) Commitments**

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities and operating and capital commitments at August 31, 2019, shown in contractual undiscounted cash flows:

	Less than one year	2 to 3 years	4 to 5 years	Later than 5 years	Total
<i>Financial Liabilities</i>					
Trade and other payables <sup>(1)</sup>	\$ 16,248	\$ -	\$ -	\$ -	\$ 16,248
Income taxes payable	178	-	-	-	178
Secured loans <sup>(2)</sup>	48,984	99,340	-	-	148,324
Finance lease payments	175	331	40	-	546
Convertible debentures	986	10,253	-	-	11,239
<b>Total Financial Liabilities</b>	<b>66,571</b>	<b>109,924</b>	<b>40</b>	<b>-</b>	<b>176,535</b>
<i>Other Commitments</i>					
Minimum rental and lease payments <sup>(3)</sup>	5,102	8,895	4,880	1,673	20,550
Other <sup>(4)</sup>	-	-	-	-	-
<b>Total Other Commitments</b>	<b>5,102</b>	<b>8,895</b>	<b>4,880</b>	<b>1,673</b>	<b>20,550</b>
<b>Total Financial Liabilities and Commitments</b>	<b>\$ 71,673</b>	<b>\$ 118,819</b>	<b>\$ 4,920</b>	<b>\$ 1,673</b>	<b>\$ 197,085</b>

<sup>(1)</sup> Includes accrued interest for the current period.

<sup>(2)</sup> See Borrowings below.

<sup>(3)</sup> Contractual operating leases for office space, campus premises, and equipment.

<sup>(4)</sup> See (c) Real Estate Projects below.

**(b) Borrowings**

The Company controls and is an investor in certain limited partnerships associated with its student housing business. These limited partnerships obtain financing to purchase real estate projects in conjunction with investor contributions. As the Company continues to grow its business, additional financing has been secured increasing liquidity risk. A detailed discussion of secured loans is included in Note 13 to the Annual Financial Statements and the contractual obligations under these loans are summarized above in the *Commitments* table. In November 2019, Project 6 received \$15,000 in new funding, which was partially used to repay the existing \$9,500 loan which was included in the commitment schedule above in the less than one-year category. The new funding matures in December 2020 subject to additional renewal provisions. The Fiscal 2017, the Company issued convertible debentures in the aggregate principal sum of \$1,268 maturing June 2022. The debentures bear interest at the rate of 4% per annum and the principal sum will be paid in monthly instalments of principal and accrued interest. In 2019, the Company issued convertible debentures denominated in HKD and CAD in the aggregate principal equivalent sum of \$8,642 maturing May 2021, subject to prepayment and extension options. The terms of the debentures are further described in Note 13 to the Annual Financial Statements.

**(c) Real Estate Projects**

The Company and certain of its subsidiaries and investment limited partnerships have entered into agreements in connection with the development of the Company's student housing arm as described in Note 7 to the Annual Financial Statements. The following table provides commitments made by the Company or the limited partnerships to which the Company is an investor as at August 31, 2019.

	Less than one year	Between one and five years	Later than 5 years	Total
<u>Other Commitments</u>				
Global Education Mega Center <sup>®</sup>	\$ -	\$ 11,630	\$ -	\$ 11,630
Global Education City <sup>®</sup> (Richmond)	-	-	49,415	49,415
GEC <sup>®</sup> Oakridge	28,650	-	-	28,650
<b>Total other commitments</b>	<b>\$ 28,650</b>	<b>\$ 11,630</b>	<b>\$ 49,415</b>	<b>\$ 89,695</b>

The above amounts exclude deposits made to August 31, 2019. Amounts due in less than one year represent the purchase price due on the specified property, with amounts due between one- and five-years representing committed payments for the construction of the specified project, and amounts due later than 5 years represent amounts due when the constructed property is completed and purchased by the respective limited partnership. These capital commitments do not include costs for contracts which have not been entered into, including construction, renovation, furnishings, closing costs or taxes which are not committed expenditures. These commitments will be funded by: (a) subscriptions to limited partnership units in the specific real estate limited partnerships; and (b) debt financing, and therefore do not represent a net cash outflow for the Company from current resources.

### **Credit Risk**

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial contract. Credit risk is primarily associated with trade receivables; however, it also arises on cash and cash equivalents and other receivables. Cash and cash equivalents are on deposit at major financial institutions. Management is of the opinion that credit risk with respect to trade accounts receivable is limited due to the ongoing evaluations of its debts and the monitoring of their financial condition to ensure collection and to minimize losses. The Company generates revenue from multiple sources and from a broad customer/client base and accordingly is not exposed to significant credit concentration risk. Trade accounts receivable as at August 31, 2019 is reported net of expected credit loss allowance of \$1,924 (August 31, 2018 - \$1,449). Further information on the Company's credit risk under IFRS 9 is included in Note 22(b) of the Annual Financial Statements.

### **Market Risk**

#### **(a) Interest Rate Risk**

Interest rate risk is the risk that the fair values and future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily on its outstanding borrowings subject to floating rates of interest and its cash and cash equivalents. The Company monitors its exposure to interest rates and has a mix of fixed-and floating rate debt, with floating debt tied to the Canadian prime rate. During the year ended August 31, 2019, there was an increase in interest rate risk associated with additional borrowings. As the borrowings are recorded at amortized cost, a change in interest rates would not impact the fair value of the instruments. The weighted-average interest rate paid by the Company during the year ended August 31, 2019 on its borrowings was 6.93% (2018 - 6.61%). A 1% increase in the Canadian prime rate would result in a decrease in the Company's net income of approximately \$487 for the year ended August 31, 2019 (2018 - \$642).

#### **(b) Currency Risk**

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency rates and the degree of volatility of these rates. The Company conducts majority of its business in Canada, with a small portion of its business in the United States, China and Hong Kong (combined total of approximately 5%) giving rise to exposure to market risks from changes in foreign currency rates. Currently, the Company does not use derivative instruments or other measures to reduce its exposure to foreign currency risk.

The Company also holds a minor amount of cash in US dollars. The exchange rate fluctuation between the Canadian dollar and the US dollar will not have a material impact on net income. The Company is also exposed to currency risk associated with both Chinese currency and Hong Kong currency fluctuations. Note 22 of the Annual Financial Statements provides information about the exposure to currency risk and a sensitivity analysis of each risk. During Fiscal 2019, the Company is exposed to additional currency risk associated with the 2019 Debentures the majority of which are denominated in Hong Kong dollars. As the 2019 Debentures do not mature until the fiscal 2021, the currency risk is limited to the required interest payments.

### **Fair value measurement risk**

Note 6(h) to the Annual Financial Statements provides information on the valuation and sensitivity analysis associated with investment properties. The investment properties are valued annually dependent on the highest and best use for the specific property, which does not differ from their actual use. The fair value of each investment property was determined by external independent qualified appraisers with recent experience in the location and category of the investment property being valued.

**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. During its normal course of operation, the Company enters into transactions with its related parties for goods and services. Transactions with related parties 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 respective GEC® branded limited partnership associated with the student housing arm of the business.

**(a) Key management personnel compensation:**

	Year Ended August 31, 2019	Year Ended August 31, 2018
Management fees and salaries	\$ 1,927	\$ 2,608
Share-based payments	62	56
	<u>\$ 1,989</u>	<u>\$ 2,664</u>

**(b) Other related party balances and transactions:**

	August 31, 2019	August 31, 2018
Due to officers and directors of the Company <sup>(1)</sup>	\$ 1,186	\$ 1,336
Due to the President of IRIX <sup>(2)</sup>	126	126
Due to investors of GEC® Viva <sup>(3)</sup>	-	722
	<u>\$ 1,312</u>	<u>\$ 2,184</u>

<sup>(1)</sup> Amounts due are non-interest bearing and have no fixed terms of repayment. Transactions include amounts paid or accrued as management fees or salaries.

<sup>(2)</sup> Short-term advances with no fixed terms of repayment, bearing interest at rate of 6% per annum.

<sup>(3)</sup> Amount due to investors in GEC® Viva associated with short-term advances bearing interest at rate of 5% per annum. Subsequent to August 31, 2018, the full balance of principal and accrued interest was paid.

**(c) Amounts due from Weifang University on behalf of Beihai College:**

	August 31, 2019	August 31, 2018
Accounts receivable – Weifang University	\$ 4,611	\$ 3,741
Accounts payable – Weifang University	2,404	1,649
	<u>\$ 2,207</u>	<u>\$ 2,092</u>

Beihai College has a joint arrangement with Weifang University and tuition fee revenues from Beihai College are received in RMB and remitted directly to the Chinese Government in the name of Weifang. Weifang requests funds from this state held account as required to fund operations, with the net receivable presented above representing the amount available to fund future operations converted from RMB to Canadian dollars at the end of each reporting period.

**NON-GAAP FINANCIAL PERFORMANCE MEASURES**

The non-IFRS financial measures do not have the standardized meanings prescribed by IFRS and are therefore unlikely to directly be comparable to similar measurements presented by other issuers. 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. These non-IFRS measures should be read in conjunction with the Annual Financial Statements.

Additional non-IFRS measures are line items, headings or subtotals that are relevant to the understanding of the financial statements but are not mandated by IFRS.

The Company uses: (a) Earnings before Interest, Taxes, Depreciation and Amortization (“**EBITDA**”); and (b) Adjusted EBITDA which is EBITDA adjusted for the gain (loss) on change in fair value of the Company’s investment property. 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 measure prescribed by IFRS. The following provides a reconciliation of the non-IFRS measures.

**EBITDA and Adjusted EBITDA**

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 has presented Adjusted EBITDA which subtracts the net gain recognized on fair value changes on investment properties under the fair value model. These amounts represent the appreciation in value of investment properties as determined by external independent qualified appraisers. At the end of each period, the Company adjusts the carrying value of its investment properties to fair value taking into consideration such valuations and other market conditions. Recognized gains are not realized until the investment property is sold; however, these amounts do represent real changes in the value of the Company’s real estate portfolio.

	3 Months Ended August 31, 2019	3 Months Ended August 31, 2018	Year Ended August 31, 2019	Year Ended August 31, 2018
	(\$)	(\$)	(\$)	(\$)
Net income – Continuing operations	9,244	28,725	14,932	45,371
Deduct: interest income <sup>(1)</sup>	(308)	(1,116)	(471)	(1,265)
Add: interest on borrowings	1,381	1,617	5,921	4,596
Add: income tax provision	1,881	6,983	1,155	6,983
Add: depreciation and amortization	590	579	2,215	1,811
<b>EBITDA [non-IFRS]</b>	<b>12,788</b>	<b>36,788</b>	<b>23,752</b>	<b>57,496</b>
Deduct: net gain on changes in fair value of investment properties	(12,016)	(34,862)	(20,116)	(43,497)
<b>Adjusted EBITDA [non-IFRS]</b>	<b>772</b>	<b>1,926</b>	<b>3,636</b>	<b>13,999</b>

<sup>(1)</sup> Interest income not associated with operations. During the Fourth Quarter of Fiscal 2018, the Company earned \$1,030 of interest associated with deposits held related to Project 2 which is included in this balance.

**Additional GAAP financial measures - gross margin from operations**

Gross margin from operations for each business unit reported is the difference between revenue and cost of sales, divided by revenue, expressed as a percentage.

**Additional GAAP financial measures - operating income**

Operating income represents the revenues from operations less related direct costs and operating costs, such as general and administrative expenses, amortization of property and equipment and intangible assets, and share-based payment expense. This measure excludes other income and costs.

## ACCOUNTING MATTERS

### BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Company's Annual Financial Statements have been prepared in accordance with IFRS as issued by the IASB. IFRS comprises IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") and the former Standing Interpretations Committee ("SICs"). Note 28 of the Company's Annual Financial Statements for the year ended August 31, 2019, provides details of the significant accounting policies.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Company's accounting policies and the amounts reported and disclosed in the consolidated financial statements and related notes. Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact the consolidated financial statements. Areas of judgement and key sources of estimation uncertainty that may have the most significant effect on the Company are disclosed in Note 3 to the Annual Financial Statements.

### ACCOUNTING STANDARDS DEVELOPMENT

The impact of accounting changes which were adopted by the Company in the current fiscal year is disclosed in Note 4(a) to the Annual Financial Statements. The impact of future accounting changes applicable to the Company for the next fiscal year starting September 1, 2019 are disclosed in Note 4(b) with the most material one disclosed below, and the standards which are issued but not yet effective until a future date in Note 4(c). The listing includes those standards and interpretations issued that the Company reasonably expects to be applicable to the Company at a future date. The Company intends to adopt these standards when they become effective. The Company has not early adopted any other amendment, standard or interpretation that has been issued by the IASB but is not yet effective.

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), which replaces IAS 17, Leases ("IAS 17") and related interpretive guidance and eliminates the current operating/finance lease dual accounting model for lessees and replaces it with a single, on-balance sheet accounting model, similar to the current finance lease accounting. The standard is effective for the Company for the annual period starting September 1, 2019.

IFRS 16 may be applied using a retrospective or modified retrospective approach on transition. The Company will transition to IFRS 16 in accordance with the modified retrospective approach and as such will not be required to restate comparative periods. Upon adoption, the incremental lease liability for leases currently classified as operating under IAS 17 will be measured at the present value of lease payments remaining in the lease term discounted using the Company's incremental borrowing rates on the date of transition. The lease asset will be measured at an amount equal to the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company completed its transition project and quantified the impact of the new standard under the modified retrospective approach. This will result in the recognition of right-of-use assets of approximately \$19,000 and total liabilities of approximately \$18,900 on the Consolidated Statement of Financial Position upon adoption, with the difference of \$100 adjusting prepaid and other receivables. The increase primarily relates to premises rentals used in connection with the Company's education business which are currently accounted for as operating leases and disclosed in the commitments and contingencies note of the Annual Financial Statements.

In addition, the nature and timing of certain expenses related to leases previously classified as operating leases and presented in cost of sales and operating expenses will now change and be presented in amortization and finance costs. As a result, amortization and finance costs will increase and direct costs and rent expense will decrease. Overall the adoption of IFRS 16 is not expected to materially impact net income.

### 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.

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

### **(a) Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are those controls and procedures that are designed to ensure that the information required to be disclosed in the filings under Canadian Securities Administrators NI 52-109 is recorded, processed, summarized and reported within the time periods specified. The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on their evaluation, the Company's CEO and CFO concluded that, as of August 31, 2019, and the date of this Management's Discussion & Analysis, the disclosure controls and procedures were effective.

### **(b) Report of Management on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. With the participation of the Company's CEO and CFO, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of August 31, 2019, based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will occur and not be detected by management before the financial statements are published. Controls can potentially be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any system of controls also is based on part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In its assessment of the effectiveness in internal control over financial reporting as of August 31, 2019, the Company determined that there were no material deficiencies in the Company's internal controls over financial reporting for Fiscal 2019.

### **Changes in Internal Control over Financial Reporting**

There have been no changes during the year ended August 31, 2019 to internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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## **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:

- 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
- 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
- rezoning process risk due to delays in permit approval, issuance, design changes or use of property may result in extensive cost increases
- government policy relating to rent control may affect rental income
- government policy relating to foreign investment may affect investor sentiment
- significant interest rate increases will affect financial performance
- construction delays, cost overruns and exchange rate fluctuation on construction materials will impact the cost of construction
- lending sentiment by construction lenders may impact the cost of mortgage financing
- the inability of any of the Company's limited partnerships to repay loans guaranteed by the Company or its subsidiaries could have a significant effect on the Company's financial performance

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 2019 filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). See also above under "Forward-Looking Information".