



CIBT EDUCATION GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2019

EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Tel: 604 688 5421
Fax: 604 688 5132
vancouver@bdo.ca
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Independent Auditor's Report

To the Shareholders of CIBT Education Group Inc.

Opinion

We have audited the consolidated financial statements of CIBT Education Group Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at August 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at August 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in Management's Discussion & Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



The engagement partner on the audit resulting in this independent auditor's report is John Leavitt.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, Canada
November 29, 2019

CIBT EDUCATION GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	August 31, 2019	August 31, 2018
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 15,213	\$ 33,246
Restricted cash	249	250
Trade and other receivables (Note 8)	21,319	19,190
Development assets (Note 7)	6,650	-
Income taxes receivable	3,570	-
Prepayments	2,809	1,729
Inventory	714	752
TOTAL CURRENT ASSETS	50,524	55,167
Investment properties (Note 6)	201,450	144,670
Property and equipment (Note 9)	61,416	62,278
Development assets (Note 7)	56,600	53,436
Intangible assets (Note 10)	8,661	9,457
Goodwill (Note 11)	9,056	10,356
Deferred income tax assets (Note 20)	1,650	3,867
Other	313	1,604
TOTAL ASSETS	\$ 389,670	\$ 340,835
LIABILITIES		
CURRENT		
Trade and other payables (Note 12)	\$ 16,248	\$ 16,597
Income taxes payable	178	5,069
Deferred revenue	23,177	23,573
Current portion of borrowings (Note 13)	42,089	28,553
TOTAL CURRENT LIABILITIES	81,692	73,792
Borrowings (Note 13)	102,062	87,051
Deferred income tax liabilities (Note 20)	11,762	8,341
TOTAL LIABILITIES	195,516	169,184
EQUITY		
SHARE CAPITAL (Note 14)	50,786	52,040
RESERVES	6,571	5,692
DEFICIT	(6,108)	(8,540)
ACCUMULATED OTHER COMPREHENSIVE INCOME	199	248
Equity attributable to CIBT Education Group Inc. shareholders	51,448	49,440
Non-controlling interests (Note 16)	142,706	122,211
TOTAL EQUITY	194,154	171,651
TOTAL LIABILITIES AND EQUITY	\$ 389,670	\$ 340,835

COMMITMENTS & CONTINGENCIES (Note 24)

EVENTS AFTER THE REPORTING PERIOD (Note 27)

Approved on behalf of the Board:

“Toby Chu”
Toby Chu, Chief Executive Officer & Director

“Troy Rice”
Troy Rice, Director

The accompanying notes are an integral part of these consolidated financial statements

CIBT EDUCATION GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE DATA

	Year Ended August 31, 2019	Year Ended August 31, 2018
REVENUES		
Educational	\$ 52,061	\$ 49,484
Design and advertising	862	1,097
Commissions and referral fees	692	904
Development fees	4,347	12,805
Rental (Note 6(g))	13,035	10,610
	<u>70,997</u>	<u>74,900</u>
DIRECT COSTS		
Educational	22,986	22,710
Design and advertising	192	250
Commissions and referral fees	455	676
Rental (Note 6(g))	7,090	5,271
	<u>30,723</u>	<u>28,907</u>
OTHER EXPENSES		
General and administrative (Note 17)	34,030	32,394
Amortization of property, equipment and intangible assets	2,215	1,811
Share-based payment expense	251	263
	<u>36,496</u>	<u>34,468</u>
OPERATING INCOME	3,778	11,525
Finance costs (Note 18)	(6,594)	(5,636)
Gain on fair value changes in investment properties (Note 6(b))	20,116	43,497
Other income (expense), net (Note 19)	(1,213)	2,968
INCOME BEFORE INCOME TAXES	16,087	52,354
INCOME TAX EXPENSE (Note 20)	1,155	6,983
NET INCOME	\$ 14,932	\$ 45,371
ATTRIBUTABLE TO:		
CIBT Education Group Inc. shareholders	\$ 2,614	\$ 19,942
Non-controlling interests	\$ 12,318	\$ 25,429
Net income per share attributable to equity holders of CIBT Education Group Inc. (Note 14(d))		
Basic	\$ 0.03	\$ 0.25
Diluted	\$ 0.03	\$ 0.25

The accompanying notes are an integral part of these consolidated financial statements

CIBT EDUCATION GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE DATA

	Year Ended	Year Ended
	August 31, 2019	August 31, 2018
NET INCOME	\$ 14,932	\$ 45,371
OTHER COMPREHENSIVE INCOME:		
Items that are or may be reclassified subsequent to profit or loss:		
Exchange differences on translating foreign operations	(50)	4
TOTAL COMPREHENSIVE INCOME	\$ 14,882	\$ 45,375
ATTRIBUTABLE TO:		
CIBT Education Group Inc. shareholders	\$ 2,565	\$ 19,946
Non-controlling interests	\$ 12,317	\$ 25,429

The accompanying notes are an integral part of these consolidated financial statements

CIBT EDUCATION GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS EXCEPT SHARE DATA

	Note	Share Capital		Reserves						Total Shareholders' Equity	Non-Controlling Interests	Total Equity	
		Number of Common Shares	Dollar Amount	Warrants	Share-Based Payments	Ownership Changes	Treasury Shares	Conversion Option	AOCI				Deficit
Balance, August 31, 2017		78,396,275	\$ 52,190	\$ 2,282	\$ 3,610	\$ 14	\$ (164)	\$ -	\$ 244	\$ (28,482)	\$ 29,694	\$ 47,281	\$ 76,975
Net income for the year		-	-	-	-	-	-	-	-	19,942	19,942	25,429	45,371
Unrealized translation adjustments		-	-	-	-	-	-	-	4	-	4	-	4
Total comprehensive income for the year									4	19,942	19,946	25,429	45,375
Share-based payments		-	-	-	263	-	-	-	-	-	263	-	263
Payments to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(2,136)	(2,136)
Non-controlling interests' contributions		-	-	-	-	-	-	-	-	-	-	51,725	51,725
Changes in ownership interests		-	-	-	-	(152)	-	-	-	-	(152)	(88)	(240)
Purchase of treasury shares		-	-	-	-	-	(689)	-	-	-	(689)	-	(689)
Treasury share cancellations		(721,000)	(531)	-	-	-	531	-	-	-	-	-	-
Shares issued - stock option exercises		10,000	6	-	(3)	-	-	-	-	-	3	-	3
Shares issued - share warrant exercises		493,690	370	-	-	-	-	-	-	-	370	-	370
Shares issued - conversion of debentures		6,075	5	-	-	-	-	-	-	-	5	-	5
Balance, August 31, 2018		78,185,040	\$ 52,040	\$ 2,282	\$ 3,870	\$ (138)	\$ (322)	\$ -	\$ 248	\$ (8,540)	\$ 49,440	\$ 122,211	\$ 171,651
IFRS standards adoption adjustments	4(a)	-	-	-	-	-	-	-	-	(182)	(182)	(66)	(248)
September 1, 2018 as restated		78,185,040	\$ 52,040	\$ 2,282	\$ 3,870	\$ (138)	\$ (322)	\$ -	\$ 248	(8,722)	49,258	122,145	171,403
Net income for the year		-	-	-	-	-	-	-	-	2,614	2,614	12,318	14,932
Unrealized translation adjustments		-	-	-	-	-	-	-	(49)	-	(49)	(1)	(50)
Total comprehensive income for the year									(49)	2,614	2,565	12,317	14,882
Share-based payments	15	-	-	-	251	-	-	-	-	-	251	-	251
Payments to non-controlling interests	16	-	-	-	-	-	-	-	-	-	-	(10,246)	(10,246)
Non-controlling interests' contributions	16	-	-	-	-	-	-	-	-	-	-	17,004	17,004
Changes in ownership interests	16	-	-	-	-	1,003	-	-	-	-	1,003	1,486	2,489
Purchase of treasury shares	14	-	-	-	-	-	(1,832)	-	-	-	(1,832)	-	(1,832)
Treasury share cancellations	14	(1,760,000)	(1,323)	-	-	-	1,323	-	-	-	-	-	-
Shares issued - stock option exercises	14	82,500	50	-	(17)	-	-	-	-	-	33	-	33
Shares issued - share warrant exercises	14	25,000	19	-	-	-	-	-	-	-	19	-	19
Equity component of convertible debt	13	-	-	-	-	-	-	151	-	-	151	-	151
Balance, August 31, 2019		76,532,540	\$ 50,786	\$ 2,282	\$ 4,104	\$ 865	\$ (831)	\$ 151	\$ 199	\$ (6,108)	\$ 51,448	\$ 142,706	\$ 194,154

The accompanying notes are an integral part of these consolidated financial statements

CIBT EDUCATION GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS

	Year Ended August 31, 2019	Year Ended August 31, 2018
OPERATING ACTIVITIES		
Net income	\$ 14,932	\$ 45,371
Items not affecting cash:		
Depreciation and amortization (Note 9, 10)	3,667	3,378
Share-based compensation (Note 15(a))	251	263
Gain on fair value changes in investment properties (Note 6(b))	(20,116)	(43,497)
Impairment of indefinite life intangible assets (Note 11)	382	660
Impairment of goodwill (Note 11)	1,300	-
Loss (gain) on disposal of assets	51	(2,296)
Share of net loss related to associates	-	670
Changes to equity accounted associates	-	(431)
Accretion of finance fees	663	1,040
Deferred income tax expense (Note 20)	5,639	2,060
Other	599	(750)
Increase (decrease) in working capital (Note 26(a))	(17,130)	13,402
Net cash (used in) provided by operating activities	(9,762)	19,870
INVESTING ACTIVITIES		
Purchases of property and equipment (Note 9)	(1,216)	(2,538)
Investment properties, net (Note 6)	1,274	8,968
Deposits on investment properties (Note 7)	(12,150)	(52,000)
Investment properties development costs and fees	(1,114)	(548)
Acquisition of businesses, net of cash acquired	-	(13,833)
Acquisition of intangible assets (Note 10)	(1,216)	(1,454)
Other	1	-
Net cash provided by (used in) investing activities	(14,421)	(61,405)
FINANCING ACTIVITIES		
Cash flows associated with borrowings (Note 26(c))	4,312	33,978
Capitalized borrowing costs (Note 6(a))	(2,072)	(2,131)
Promissory note receivable (Note 8)	375	67
Advances from related parties, net (Note 12, 25)	(869)	(11,797)
Proceeds from issuance of shares, net of costs	52	374
Repurchase of common shares (Note 14)	(1,832)	(689)
Non-controlling interest, net (Note 16(a))	8,758	49,349
Deferred financing costs (Note 26(a))	(2,517)	(1,251)
Net cash provided from financing activities	6,207	67,900
Effects of exchange rate changes on cash and cash equivalents	(57)	1
Increase (decrease) in cash and cash equivalents	(18,033)	26,366
Cash and cash equivalents, beginning of year	33,246	6,880
Cash and cash equivalents, end of the year	\$ 15,213	\$ 33,246

Supplemental cash flow information (Note 26)

The accompanying notes are an integral part of these consolidated financial statements

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 1 – NATURE OF OPERATIONS

Nature of operations

CIBT Education Group Inc. (the “Company”) is an educational and student-housing investment company headquartered in Vancouver, British Columbia, Canada. The Company’s current business operations include education, media communications, revenue producing properties and real estate development. The Company currently has five principal business units/segments, being Sprott Shaw College Corp. (“SSCC”), Sprott Shaw Language College (“SSLC”), which includes Vancouver International College (“VIC”), CIBT School of Business & Technology Corp. (“CIBT China”), IRIX Design Group Inc. (“IRIX”), and Global Education City Holdings Inc. (“GECH”). The Company’s education business is conducted through SSCC and SSLC/VIC in Canada and through CIBT China and its subsidiaries in Asia. The Company operates its media communications business through IRIX. GECH is an investment holding and management company with a focus on education related real estate projects in Vancouver, Canada.

The head office and principal address of the Company are located at Suite 1200, 777 West Broadway, Vancouver, British Columbia, Canada and its registered and records offices are located at 595 Burrard Street, Suite 2900, Vancouver, British Columbia, Canada.

NOTE 2 – BASIS OF ACCOUNTING

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, effective as of August 31, 2019.

These consolidated financial statements of the Company, were approved by the Company’s Board of Directors and authorized for issue on November 29, 2019.

Basis of preparation

These consolidated financial statements were prepared on a going-concern basis, under the historical cost convention except for investment property and convertible debentures derivatives classified as at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The Company’s accounting policies are described in Note 28 and these policies are consistently applied to all the periods presented with the exception of the adoption of IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”) and IFRS 9 - *Financial Instruments* (“IFRS 9”) in the year ended August 31, 2019 as described in Note 4 to these financial statements.

The Company’s presentation currency is Canadian dollars and all amounts are presented in thousands of Canadian dollars unless otherwise stated. The consolidated financial statements include the accounts of the Company and those of its subsidiaries, which are entities over which the Company has control (Note 28(A)(i)).

Certain comparative figures have been reclassified to conform to the current year’s presentation.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the preparation of the consolidated financial statements and the application of the Company’s accounting policies, management is required to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. The estimates and associated assumptions are limited by the relevance of historical data and uncertainty of future events. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

(a) Critical judgements in applying accounting policies

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements, are as follows:

Assessment of indefinite life intangibles

The Company holds indefinite life intangible assets including accreditations and registrations, brand-names and trade-names, and Chinese university agreements. Management assesses at each annual reporting period whether there have been any changes in the current marketplace or regulatory environment that would impact the conclusion that these are intangibles have indefinite life. Management continues to conclude that there is no definite end to the cash flows to be generated from the indefinite life intangible assets as at August 31, 2019.

Recognition of deferred income tax assets and liabilities

The decision to recognise a deferred tax asset is based on management's judgement of whether it is considered probable that future taxable profits will be available against which unused tax losses, tax credits or deductible temporary differences can be utilized (Note 20).

Determination of control of subsidiaries and joint arrangements

Judgement is required to determine when the Company has control of subsidiaries or joint control of joint arrangements. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making, financing of the investee, and the appointment, remuneration and termination of key management personnel; and when the decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors. Management has determined that at August 31, 2019 it controls all the Limited Partnerships which have been formed to hold the GECH operations of the business (Note 16).

Classification of property as investment property or owner-occupied property

Management uses judgement in determining if assets acquired meet the definition of investment property or owner-occupied property. In cases where optional ancillary services may be available in addition to and separate from the main source of revenues, management must assess if those ancillary services are insignificant to the business as a whole to determine appropriate classification (Note 6 and 9).

Business combinations

The Company is required to make certain judgments as to whether or not a set of assets acquired/liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 - *Business combinations*. Based on assessment of the relevant facts and circumstances the Company concluded that the acquisition of the land in August 2019 was an asset acquisition, not a business combination. During the year ended August 31, 2018, the Company concluded the acquisition of a controlling interest in one of the limited partnerships constituted a business combination (Note 5).

Value of convertible debentures components issued in 2019

The Company determines the fair value components of the convertible debentures depending on the nature of each component. Judgement is required in determining the inputs used in the fair value calculations and in determining the probability of certain outcomes, and changes in those judgements may result in a change to the recognized value of the convertible debentures. The Company will determine the fair value of these embedded derivatives within these convertible debentures at the end of each reporting period until maturity or conversion.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

(b) Key sources of estimation uncertainty

Information about assumptions and estimation uncertainties at August 31, 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities and results of operations in future periods, are as follows:

Valuation of Investment Property

The Company determines the fair value of each investment property based upon, among other things, the nature of the investment property, the status of development and the appropriate valuation technique. Judgment is required in determining the unobservable inputs used in the fair value calculations and changes in those inputs may result in a change in the recorded fair value of the property. Judgment is applied in determining the extent and frequency of independent appraisals and valuations and the use of market data in determining the fair value (Note 6).

Expected credit loss allowance and provision

On adoption of IFRS 9, the Company determined an expected credit loss allowance for trade receivables based on the estimated expected lifetime credit loss, considering the actual credit loss in prior years and forward-looking estimates of expected collections. This estimate varies depending on the nature of the trade receivables, the majority of which are associated with the education business; however, also includes receivables from the student housing arm and other lines of business. The loss allowance is reviewed on a quarterly basis and any change in estimate is accounted for prospectively. The Company also assesses the expected credit loss of non-trade financial assets to determine if an allowance is required. Collectivity of customer balances classified as trade receivables may vary from the Company's estimation (Note 4(a) and Note 22 (b)).

Impairment of indefinite life intangible assets and goodwill

Indefinite life intangible assets and goodwill are reviewed for impairment annually or more frequently if changes in circumstances indicate that the carrying value may be impaired. Impairment of an asset occurs when its carrying value exceeds its recoverable amount, measured under the value in use methodology. The calculation of recoverable amount is based on a discounted cash flow model, which incorporates the Company's budget and business plan for the cash-generating units being measured. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. To arrive at cash flow projections the Company uses estimates of economic and market information over the projection period, including growth rates in revenues, estimates of future expected changes in operating margins, and cash expenditures. Other significant estimates and assumptions include future estimates of capital expenditures and changes in future working capital requirements. If future growth and results of the Company differ significantly from management's current best estimates with respect to the critical assumptions noted above, it is reasonably possible that this could have an adverse impact on the estimated recoverable amounts of the Company, including the amounts of allocated goodwill and indefinite life intangible assets, and result in an impairment charge (Note 11).

Useful lives of property and equipment and definite life intangible assets

The Company estimates useful life, residual value and depreciation methods based on industry norms, historical experience, market conditions and future cash flows. It is possible that future results could be materially affected by changes in the above factors. The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain assets (Note 9 and 10).

NOTE 4 – APPLICATION OF NEW AND REVISED IFRSs AND FUTURE ACCOUNTING POLICIES

(a) Application of new and revised IFRSs

In the current year, the Company has applied a number of new and revised IFRSs issued by the International Accounting Standards Board ("IASB") and incorporated in the Chartered Professionals Accountants of Canada Handbook. The following highlights these changes and the effect, if any, on the Company's consolidated financial statements.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 4 – APPLICATION OF NEW AND REVISED IFRSs AND FUTURE ACCOUNTING POLICIES (cont'd)

(b) Application of new and revised IFRSs (cont'd)

Revenue recognition

On September 1, 2018, the Company adopted IFRS 15 which supercedes IAS 18 – *Revenue* (“IAS 18”). IFRS 15 establishes a five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 requires companies to recognize revenue when ‘control’ of goods or services transfers to the customer whereas IAS 18 required entities to recognize revenue when the ‘risks and rewards’ of the goods and services transferred to the customer. IFRS 15 also changed the basis for deciding whether revenue is to be recognized overtime or at a particular point in time and expanded disclosure requirements.

The Company adopted the standard using the modified retrospective approach also known as the cumulative effect method using certain practical expedients. Under this method, the comparative financial information for the year ended August 31, 2018 was not restated and was reported under IAS 18 with a cumulative transition adjustment recorded to opening retained earnings as at September 1, 2018. The Company used the transitional method that allows the Company to apply IFRS 15 retrospectively only to contracts that are not completed as at September 1, 2018. On adopting IFRS 15, both the recognition and measurement of revenue remained the same in all cases. There were no significant changes in accounting policies resulting from the adoption of IFRS 15; however, there were changes to the accounting policy language which appears in Note 28(C).

There were no contract assets or new contract liabilities identified on transition to IFRS 15. Contract liabilities, that are called *Deferred revenues* in these consolidated financial statements, represent the Company’s obligation to transfer goods or services to a customer where the Company has received consideration or an amount of consideration is due from the customer.

Financial Instruments

On September 1, 2018, the Company adopted IFRS 9 which replaced IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking ‘expected loss’ impairment model. IFRS 9 was applied retrospectively; however, the Company applied the exemption not to restate the comparative information for prior periods with respect to the classification and measurement requirement including impairment; therefore, financial information for and prior to the year ended August 31, 2018 are not restated. Differences in the carrying amount of financial assets and liabilities resulting from the adoption of IFRS 9 are recognized in opening retained earnings as at September 1, 2018. The Company also adopted a narrow scope amendment to IFRS-7 - *Financial Instruments – Disclosures*, predominately around expected credit losses and impairment of financial assets and liabilities.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables are presented within General and administrative expenses in the Consolidated Statements of Comprehensive Income.

On transition date, the carrying amounts of the Company’s financial instruments impacted were as follows:

Retained earnings

Recognition of expected credit losses under IFRS 9 ⁽¹⁾	\$	125
Recognition of non-substantial debt modification under IFRS 9 ⁽²⁾		123
Impact at September 1, 2018 ⁽²⁾	\$	248

⁽¹⁾ The loss allowance at September 1, 2018 under IFRS 9 of \$1,574 resulted from: (a) allowance of \$1,449 as at August 31, 2018 under IAS 39 on financial assets classified as loans and receivables measured at amortized cost; and (b) additional loss allowance of \$125 recognized at September 1, 2018 based on financial assets measured at amortized cost under IFRS 9 as at August 31, 2018.

⁽²⁾ Opening balance sheet adjustment of \$123 represents a loss on modification of \$186 at the date of modification offset by accretion on the new carrying amount of the loan. Includes \$66 attributable to non-controlling interests.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 4 – APPLICATION OF NEW AND REVISED IFRSs AND FUTURE ACCOUNTING POLICIES (cont'd)

(a) Application of new and revised IFRSs (cont'd)

Financial Instruments (cont'd)

The Company considers the model and some of the assumptions used in calculating the ECL's as key sources of estimation uncertainty. The following summarizes the significant changes between IAS 39 and IFRS 9 currently relevant to the Company.

- IFRS 9 classifies financial assets at either amortized cost or fair value whereas IAS 39 classified financial assets into five categories, each with different measurement requirements. Under IFRS 9, the classification depends on the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. Where financial assets are measured at fair value, gains or losses are either recognized entirely in profit or loss or recognized in other comprehensive income. On transition there were no changes to the measurement of financial assets of the Company.
- The adoption of the new "expected credit loss" ("ECL") impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had a negligible impact on the carrying amounts of the Company's financial assets on September 1, 2018 given the short-term nature of the Company's receivables and low historical level of customer default. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the Company's previous approach where an allowance for bad debts were recorded only as incurred. The Company applied the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables, which were grouped based on days past due.
- When a financial liability is non-substantially modified, the difference between the present value of the discounted cash flows is recognized in profit or loss immediately which was not previously the requirement under IAS 39.

Other narrow scope amendments/interpretations

The Company has adopted narrow scope amendments/interpretations to IAS 40 – *Investment Property*; IFRIC Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*; IFRS-2 - *Share-based Payments*; and IAS 1 – *Presentation of Financial Statements*, which did not have a material impact on the Company's consolidated financial statements.

(c) New accounting standards applicable for fiscal year beginning September 1, 2019

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing includes issued standards and interpretations the Company reasonably expects to be applicable to it at a future date. The Company intends to adopt these standards when they become effective and has not early adopted any other amendment, standard or interpretation that has been issued by the IASB but is not yet effective.

Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), which replaces IAS 17, *Leases* ("IAS 17") and related interpretive guidance. IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time. IFRS 16 significantly changes the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the finance lease accounting under IAS 17 for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Company will apply IFRS 16 beginning on September 1, 2019 using a modified retrospective approach. Under the modified retrospective approach, comparative information for prior periods presented will not be restated. Instead, the cumulative effect of initially applying IFRS 16 will be recognized on September 1, 2019, at the date of initial application.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 4 – APPLICATION OF NEW AND REVISED IFRSs AND FUTURE ACCOUNTING POLICIES (cont'd)

(b) New accounting standards applicable for fiscal year beginning September 1, 2019

Leases (cont'd)

Lease liabilities will be recognized as at September 1, 2019, measured at the present value of the remaining lease payments as of that date for all contracts identified as leases with remaining lease terms of more than 12 months and for which the underlying asset is not of low value, discounted using the Company's incremental borrowing rate as at September 1, 2019. As permitted by IFRS 16, the Company has elected to measure the right-of-use asset for each lease, at September 1, 2019, at an amount equal to the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The application of IFRS 16 impacts the accounting for the Company's premise rentals used in connection with its education business. In addition, the application of IFRS 16 impacts the accounting for the Company's leased investment property used in connection with its student housing business. The recognition of a lease liability and right-of-use asset results in lease payments being recognized partly as interest expense (on accretion of the lease liability) and depreciation expense (on depreciation of the right-of-use asset) as compared to being recognized as an operating lease expense under IAS 17. Total interest expense over the term of the lease plus depreciation expense over the life of the underlying leased asset under IFRS 16 will equal the total lease payments that would have been recognized as operating lease expenses (rent expense) under IAS 17, with total interest and depreciation expense during the earlier periods of a lease term being higher than the later periods. In addition, operating cash outflows will be reduced by the principal portion of lease payments with a corresponding increase in financing cash outflows.

Based on management's review of its existing contracts, the Company expects to recognize approximately \$19,000 of right-of-use assets, \$5,000 of current lease liabilities and \$14,000 of non-current lease liabilities as at September 1, 2019. As permitted by IFRS 16, the Company has elected not to separate non-lease components from lease components. Upon application of IFRS 16, non-lease components of lease contracts, comprised of variable rent payments not based on an index or rate, including additional rent for operating costs and taxes, will continue to be recognized as rent expense as incurred.

Uncertainty over income tax treatments

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), with a mandatory effective date of January 1, 2019 which is applicable to the Company starting September 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect on initial application in opening retained earnings without adjusting comparative information. The adoption of IFRIC 23 is not expected to have a significant impact on the Company's consolidated financial statements.

Annual improvements

Annual improvements make necessary but non-urgent amendments to existing IFRSs. In December 2017, the IASB issued the 2015 – 2017 cycle Annual Improvements which included amendments to standards with an effective date of annual periods beginning on or after January 1, 2019, which applies to the Company commencing September 1, 2019. These amendments are not expected to have significant impact on the Company's consolidated financial statements.

NOTE 4 – APPLICATION OF NEW AND REVISED IFRSs AND FUTURE ACCOUNTING POLICIES (cont'd)

(c) New accounting standards applicable for fiscal year beginning September 1, 2020

Conceptual Framework

In March 2018, the IASB issued the revised Conceptual Framework for Financial Reporting which assists entities in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to more fully understand the standards. The revised conceptual framework includes the following clarifications and updates: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions and guidance, particularly for the definition of a liability; and, (d) clarifications on important items such as the role of stewardship, prudence and measurement uncertainty in financial reporting.

The revised conceptual framework is effective for annual reporting periods beginning on or after January 1, 2020 and is applicable to the Company starting September 1, 2020. Earlier application is permitted.

Definition of material

In October 2018, the IASB issued *Definition of Material (Amendments to IAS 1 and 8)* to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and are applicable to the Company starting September 1, 2020.

Definition of a business

In October 2018, the IASB issued *Definition of a Business (Amendments to IFRS 3)* which: (a) clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) narrows the definition of a business and of outputs by focusing on goods and services provided to customers; and (c) removes certain assessments and adds guidance and illustrative examples. The amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. The amendments are applicable to the Company starting September 1, 2020. Early application is permitted.

[Remainder of page intentionally blank]

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 5 – ACQUISITION OF GEC PROJECT 4

On March 15, 2018, the Company completed the acquisition of the property and equipment of an operating hotel in downtown Vancouver including a franchised restaurant and from that date the property and the continuing operations are consolidated into the Company's results. The primary reason of the business combination was to take control of the project, which is a part of the Company's student housing business and realize gains on the appreciation of the value since purchase. The Company is now better able to direct operations with the goal of increasing shareholder value. On March 15, 2018, the fair value of identifiable assets acquired and liabilities assumed was determined on a provisional basis. The majority of the fair value was allocated to property and equipment (Note 9). There were no changes to the estimates of fair values or costs made at the date of purchase or during the measurement period. The following describes the transactions.

(a) Purchase of controlling interest in GEC LP 4, achieved in stages

In November 2015, a limited partnership of which the Company did not control but was a limited partner purchased an operating hotel in downtown Vancouver including a franchised restaurant. Management had determined that the Company and certain of its subsidiaries had significant influence over this limited partnership, known as GEC LP 4, including 20% voting rights and power to participate in the financial and operating policy decisions. The Company accounted for its investment in GEC LP 4 using the equity method. On March 1, 2018, the Company increased its investment to 30% on the purchase of units from another limited partner.

In January 2018, GECH entered into a Purchase and Sale Agreement with the majority owner of GEC LP 4 to acquire that partner's 70% equity interest for \$14,250. The transaction closed on March 15, 2018 and on that date an entity controlled by the Company held 100% of the units of GEC LP 4, which resulted in the Company having control of GEC LP 4. The Company concluded that the acquisition of the additional units in GEC LP 4 was a business combination achieved in stages and accordingly the transaction was accounted for as a business combination.

As the Company had a previous equity interest in GEC LP 4, the transaction is considered a step acquisition which requires the acquirer to remeasure its previously held equity interest in GEC LP 4 at its acquisition-date fair value and recognize the resulting gain or loss, if any, in net income or loss. The acquisition date fair value was based on the implied value using the amount paid for the 70% equity interest. The gain on re-measurement of the previous equity interest was calculated as \$4,703, representing the acquisition-date fair value of the 30% interest of \$6,107 less the carrying value of \$1,404 of the 30% equity interest (Note 16(d)), and this gain is recorded in Other income (expense), net as a gain on disposal of assets in the Consolidated Statements of Comprehensive Income for the year ended August 31, 2018.

(i) Consideration Transferred

The following table summarizes the acquisition-date fair value of each major class of consideration transferred.

Cash paid for 70% equity interest	\$	14,250
Fair value of previously held interest		6,107
Interest-bearing debt assumed		22,385
Promissory note owing to related party assumed		12,302
Funds in the settlement on pre-existing relationships		1,956
Fair value of purchase consideration	\$	57,000

Interest-bearing debt assumed

The Company assumed the debt held by GEC LP 4 at acquisition date which was a third-party secured loan with a principal balance of \$22,500 and accrued interest and financing fees.

Settlement of transactions under a pre-existing relationship

The acquiring party became responsible for certain intercompany balances due from various entities in the consolidated group, and this have been assessed to be pre-existing relationships which already existed before the acquisition date. In addition, a promissory note payable to a related company of \$12,302 was paid on the purchasers' behalf before the transaction and represents the settlement of a pre-existing relationship. These amounts have been recorded at their fair values.

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 5 – ACQUISITION OF GEC PROJECT 4 (cont’d)

(a) Purchase of controlling interest in GEC LP 4, achieved in stages (cont’d)

(ii) Identifiable assets acquired and liabilities assumed

The following table summarizes the estimated fair values of identifiable assets acquired and liabilities assumed and the resulting goodwill on the transaction:

Fair value of purchase consideration	\$	57,000
Less: Total identifiable net assets acquired		
Property and equipment	\$	57,144
Cash ⁽¹⁾		209
Accounts receivable		296
Prepaid expenses and deposits		154
Accounts payable and accrued liabilities		(803)
Deferred income tax liability		(300)
Total identifiable net assets acquired	\$	56,700
Goodwill	\$	300

⁽¹⁾ Net cash outflow of \$13,833 comprised of purchase price paid in cash of \$14,042 less cash acquired in business combination.

The Company determined the fair value of the acquired identifiable property and equipment through observable transactional values with unrelated arm’s length counterparties. The fair value of the property and equipment was determined based on the transaction price. The carrying value of the net working capital approximates its fair value. At August 31, 2018, approximately 6% of accounts receivable amounts may become uncollectible. At August 31, 2018, the Company’s purchase price allocation was preliminary pending obtaining additional information regarding estimates of fair values and costs made at the date of purchase during the measurement period. There were no changes to the purchase price allocation during the measurement period which ended in the year ended August 31, 2019. There was no contingent consideration.

(b) Purchase of property and equipment by GEC LP 8 from GEC LP 4

In October 2017, in anticipation of a transaction with GEC LP 4, a new limited partnership (“GEC LP 8”) was formed and a subsidiary of the Company became the general partner. On March 15, 2018, concurrently with the purchase of the units described in (a) above, GEC LP 4 sold the shares in the bare trustee, which holds legal title to the land and building of GEC LP 4 to GEC LP 8 (Note 9(b)). As both GEC LP 4 and GEC LP 8 were controlled by the Company on the transaction date, the sale to GEC LP 8 is considered a intercompany transaction. A deferred tax liability of \$300 and current taxes payable were recognized associated with this transaction at August 31, 2018.

As the Company held an equity interest in GEC LP 4 before the transactions accounted for under the equity method, the property previously held by GEC LP 4 was not consolidated in the Consolidated Statements of Financial Position. The Company’s share of the net income (loss) were included as loss on equity investees and was included in Other income (expense), net on the Consolidated Statements of Comprehensive Income. Commencing March 15, 2018, the property and the continuing operations are consolidated. For the period from March 15 to August 31, 2018, rental revenues of \$4,513 were earned, offset by direct costs of \$1,460 and indirect costs of \$2,377 resulting in net rental income of \$676. If the business combination had occurred at the beginning of the year, revenues for combined entity for the year ended August 31, 2018 would have been approximately \$7,300 with a loss after direct and indirect costs of approximately \$600.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 6 – INVESTMENT PROPERTIES**(a) Reconciliation of carrying amount**

The following table is a reconciliation of investment properties balances, including both revenue-producing properties and properties under development, that are owned by the real estate limited partnerships which the Company controls. These limited partnerships include GEC in their respective names that is a registered trademark of the Company. GEC is used throughout this document in limited partnership names and project references. On initial recognition investment properties were recorded at their purchase price plus any directly attributable expenditures. The Company selected the fair value model to apply to its investment properties.

	August 31, 2019		August 31, 2018	
Balance, beginning of year	\$	144,670	\$	101,010
Acquisitions ⁽¹⁾		33,036		55,439
Dispositions ⁽²⁾		-		(61,100)
Capital additions		230		45
Development costs		1,326		3,648
Capitalized borrowing costs ⁽³⁾		2,072		2,131
Gains on change in fair value		20,116		43,497
Balance, end of year	\$	201,450	\$	144,670

⁽¹⁾ The Company purchased GEC Project 7 in August 2019 as further described in (c) and purchased GEC Project 2 in August 2018 as further described in (d) below. The Company also purchased GEC Project 1 land for \$12,939 in the year ended August 31, 2018.

⁽²⁾ In August 2018, the Company disposed of GEC Project 3 as further described in (e) below and the commercial units of GEC Project 5 as further described in (f) below.

⁽³⁾ Borrowing costs are capitalized on properties under development which are considered qualifying assets. Borrowings are directly associated with the specific project.

(b) Fair market value and gains

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. 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 (Note 6(h)). The following table presents the carrying value of investments properties using the fair value model (Note 28(E)):

	Closing date	August 31, 2019		August 31, 2018	
GEC Property 2	August 2018	\$	83,050	\$	76,000
GEC Property 5	October 2016		18,440		19,500
Total revenue producing properties		\$	101,490	\$	95,500
GEC Property 1 – land	October 2017		18,320		21,400
GEC Property 6 – land	September 2016		32,300		27,770
GEC Property 7 – land	August 2019		49,340		-
Total properties under development		\$	99,960	\$	49,170
Total value of investment properties		\$	201,450	\$	144,670

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 6 – INVESTMENT PROPERTIES (cont'd)**(b) Fair market value and gains (cont'd)**

The following is a summary of gains (losses) arising from changes in the fair values of investment properties recognized included in Gains in fair value changes in investment properties on the Consolidated Statements of Comprehensive Income. All gains or losses are unrealized until such time as the property is sold.

	Year Ended August 31, 2019	Year Ended August 31, 2018
GEC Property 1	\$ (4,584)	\$ 6,037
GEC Property 2	7,050	33,204
GEC Property 3	-	(251)
GEC Property 5	(1,060)	1,113
GEC Property 6	3,406	3,394
GEC Property 7	15,304	-
	<u>\$ 20,116</u>	<u>\$ 43,497</u>

(c) Acquisition of GEC Project 7

In May 2017, GEC LP 7 entered into a Purchase and Development Agreement (“LP7 PDA”) with a developer under which the developer would construct GEC Project 7 on the lands purchased for this purpose and sell it to GEC LP 7 on completion. Amendments to the LP7 PDA were made in June and July 2017 to extend subject removal dates and milestones for deposit payments. The parties continued to negotiate the original LP7 PDA until April 2019 when the parties executed the third amendment of the LP7 PDA (“Amended LP7 PDA”). The Amended LP7 PDA most notably provided for: (a) a modified building design; (b) the sale of the land from the developer, as vendor, to GEC LP 7, as purchaser; and (c) the developer, instead of constructing the building, to assist the purchaser with the development and construction of a building on the lands originally purchased for this purpose in accordance with the project plan.

In August 2019, the transactions contemplated under the original and Amended LP 7 PDA closed at the price agreed to in May 2017. The original purchase price of the land was \$22,600. The Amended LP7 PDA also required the payment of a vendor’s development fee comprised of several distinct payments of which \$4,775 was associated with land transfer, with the remainder of the payments described below. The carrying value of the property before fair value measurement was comprised of the total purchase price, including reimbursement of various costs previously incurred by the developer, deferred development costs, capitalized acquisition and borrowing costs. At August 31, 2019, the fair value of the investment property was \$49,340. A fair value gain of \$15,304 was recognized in the year ended August 31, 2019.

The Amended LP7 PDA requires certain future payments totalling \$12,130 to be made to the vendor for future services that the vendor will provide to ensure the project is completed. These payments are not part of the purchase price for the land. These amounts will be paid when specific building process milestones are reached which represents completion of the work done by the vendor to successfully reach those milestones. The first payment will be paid if the development plan for the Project is approved. The second payment will be due when the building permits are issued and the last payment will be due within 20 days of the issuance of occupancy permits (Note 24). A deposit of \$500,000 previously paid by the Company will offset the last payment pursuant to the LP7 PDA.

Future payments under the third amendment to the LP7 PDA do not meet the definition of a provision as the Company has no legal obligation to make these payments should these milestones not be reached. Given the nature of these payments they are classified as contingent liabilities and are not considered part of the purchase price of the land or a provision at August 31, 2019. The Company will assess whether a provision is appropriate at the end of each reporting period.

The Amended LP7 PDA provides that in the case that the aforementioned milestones are not met, GEC LP 7 has the option, before the issuance of the building permits, to elect to sell the land. The net proceeds of this sale would be allocated 50% to each of GEC LP 7 and the vendor after repayment of related financing and selling costs, and a management fee of \$1,500 to the vendor. The Company is proceeding with the construction of Project 7 as planned.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 6 – INVESTMENT PROPERTIES (cont'd)**(d) Acquisition of GEC Project 2**

In May 2014, GEC LP 2 entered into an agreement with a developer for the purchase of two completed apartment buildings to be used as serviced apartments and the purchase occurred at the end August 2018 at a purchase price of \$42,500, excluding furniture, fixtures and equipment (“FFE”). The purchase was considered an asset acquisition. Deposits of \$8,500 paid to the developer at August 31, 2017 under the purchase agreement were applied to the purchase price. In addition, \$1,030 of interest was earned on the deposits and applied to the purchase price.

(e) Disposition of GEC Project 3

In May 2018, GEC LP 3 entered into a purchase and sale agreement for the sale of the land and building, excluding FFE, via the sale of the issued and outstanding shares of the bare trustee holding legal title to the Property. The sale transaction closed on August 13, 2018. GEC LP 3 recognized an accounting loss on disposition as follows:

Selling price	\$	55,500
Less: selling costs		(2,188)
Net proceeds	\$	53,312
Assets sold and derecognized: investment property	\$	55,500
Loss on disposition, included in gain (loss) on disposition of assets	\$	(2,188)

The following table presents the continuity of the changes in GEC Project 3 since acquisition:

Purchase of property	\$	29,219
Capital additions		93
Development costs		5,627
Capitalized borrowing costs		3,084
Fair value gain – realized		17,477
	\$	55,500

Lease Back

On August 13, 2018, in conjunction with the sale of the GEC Project 3 investment property, a wholly owned subsidiary of the Company, as Tenant, entered into a land and building sublease with the Purchaser, as landlord. Base rent of \$1,824 per annum is payable in monthly instalments with total future minimum lease payments over the term approximating \$9,620 (Note 24).

(f) Disposition of GEC Project 5 commercial units

In December 2017, GEC LP 5 entered into an agreement for the sale of the commercial units of this property which closed on August 31, 2019. Management determined the fair value of the commercial units to be \$5,600, which Management believed was the best estimate of the fair value based on the expected net sales proceeds exchanged in an orderly transaction under market conditions at the time. The carrying value of GEC Project 5 at August 31, 2019 and August 31, 2018 reflects the fair value of the residential units only. The Company incurred selling costs of \$223 which were presented in Other income (expense), net on the Consolidated Statements of Comprehensive Income in the year ended August 31, 2018.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 6 – INVESTMENT PROPERTIES (cont'd)**(g) Rental operations**

The following presents the operating activities associated with properties leased to tenants or provided under service contracts in the Company's real estate portfolio:

	Year ended August 31, 2019	Year ended August 31, 2018
Rental revenues	\$ 13,035	\$ 10,610
Direct operating costs generating revenue	(7,090)	(5,271)
Other indirect costs, including financing	(9,942)	(7,277)
Net loss	\$ (3,997)	\$ (1,938)

Rental revenues are comprised of both lease revenues under IAS 17 and service contracts, non-lease components and other revenues under IFRS 15 adopted September 1, 2018. The table above includes the results of GEC Project 8 from March 15, 2018 which is classified as an owner-occupied property. Results of operations for GEC Project 3 (Note 6(e)) have been included in each period. Rent expense paid to the purchaser commencing in August 2018 is included in direct operating costs.

(h) Measurement of fair values**i. Fair value hierarchy**

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. At the end of each period, the Company records the fair value of its investment properties taking into consideration such valuations and other market conditions.

The valuation of investment properties is a level 3 fair value measurement as it involves a significant unobservable input and fluctuations in the inputs could significantly alter the fair value. There were no changes to the valuation techniques in the year ended August 31, 2019 from the prior reporting period.

ii. Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
<u>Income approach:</u> Valuation method used for revenue producing properties.	<ul style="list-style-type: none"> Estimated total gross annual income and operating expenses where buildings are recently acquired. Capitalization rate, selection of method and rate 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> Stabilized NOI was higher (lower) Overall capitalization rates were lower (higher)⁽²⁾
The valuation method is based on forecasted stabilized net operating income ("NOI") ⁽¹⁾ divided by an overall capitalization rate based on current market expectations.		Small incremental increases or decreases in these two unobservable inputs can have significant impact on fair value.

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 6 – INVESTMENT PROPERTIES (cont'd)

(h) Measurement of fair values (cont'd)

ii. Valuation technique and significant unobservable inputs (cont'd)

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
<u>Direct comparison approach:</u>		
Valuation method used for properties under development. The valuation method is based on comparison to recent sales of properties of similar types, location and quality.	<ul style="list-style-type: none"> Price per buildable square feet. 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> The buildable square feet price based on comparable market rates increased (decreased)

⁽¹⁾ NOI is calculated as a one-year income forecast based on rental income from current leases and key assumptions about rental income, vacancies and among other factors, less property operating costs.

⁽²⁾ When the capitalization rate is applied to NOI there is a significant impact whereby the lower the capitalization rate, the larger the impact on the fair value.

The following table summarizes the sensitivity impact of changes in both capitalization rates and NOI on the Company's fair value of its revenue producing investment properties as at August 31, 2019.

Revenue producing properties

		Net operating income				
		-1.00%	-0.50%	As Forecasted	+0.50%	+1.00%
		3,681	3,700	3,718	3,737	3,755
Capitalization Rate						
-0.25%	3.41%	6,343	6,888	7,433	7,977	8,522
Capitalization Rate as Reported	3.66%	(1,015)	(507)	-	507	1,015
+0.25%	3.91%	(7,433)	(6,958)	(6,483)	(6,008)	(5,533)

Properties under development

The fair value of vacant land has been measured under the direct comparison approach at the proposed gross buildable area expected to be developed multiplied by the price per buildable sq. ft., which is based on an assessment of comparable properties. This approach also considers the floor space ratio of the planned building, development time frame and planning status at measurement date. For the three properties under development at August 31, 2019, an increase/decrease in the price per buildable sq. ft. of 2.0% would increase/decrease the fair value of the properties under development assets by \$1,999 and a 4% increase/decrease would increase/decrease the fair value by \$3,998.

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 7 – DEVELOPMENT ASSETS

The following represents balances associated with the Company real estate properties under development:

	August 31, 2019	August 31, 2018
Deposits ⁽¹⁾	\$ 41,650	\$ 52,500
Receivable from developer ⁽²⁾	20,000	-
Deferred Costs ⁽³⁾	1,600	936
	<u>\$ 63,250</u>	<u>\$ 53,436</u>
Current deposits ⁽⁴⁾	1,650	-
Current receivable from developer ⁽²⁾	5,000	-
Less: current development assets	<u>\$ 6,650</u>	<u>\$ -</u>
Non-current development assets	<u>\$ 56,600</u>	<u>\$ 53,436</u>

⁽¹⁾ Deposits advanced to parties under real estate agreements at August 31, 2018 represent \$2,500 associated with GEC Project 7 and \$50,000 associated with GEC Project 9. In the year ended August 31, 2019, additional deposits were made of (a) \$500 associated with GEC Project 7; (b) \$10,000 associated with GEC Project 9; and (c) \$1,650 associated with GEC Project 10.

In August 2019, deposits of \$2,500 associated with GEC Project 7 were applied towards the purchase price of the land (Note 6(c)) with the remaining \$500 deposit transferred to deferred costs. Deposits are applied to the purchase price of an investment property in the period the investment property is purchased, if the purchase is completed. If the purchase is not completed, subject to the terms of the agreement deposits are refundable.

⁽²⁾ See GEC Project 9 below. At August 31, 2019, this deposit was reclassified from deposits associated with the option to purchase non-financial assets to a receivable from the developer. During the year ending August 31, 2020, GEC LP 9 expects to receive deposits of \$5,000 back from the developer.

⁽³⁾ Deferred costs are mainly associated with costs incurred on properties under development which are transferred to the investment property carrying value on purchase.

⁽⁴⁾ The Company expects to purchase the Project 10 land during the year ending August 31, 2020. The deposit of \$1,650 will be applied to the purchase price and is no longer refundable to the Company unless there is a breach of agreement terms by the vendors. If the Company does not purchase the land, this deposit plus calculated interest will be forfeited to the vendors.

GEC Project 9

In February 2018, GEC LP 9 entered into a definitive Purchase and Development Agreement (“LP9 PDA”) with a Vancouver developer for the construction of a number of buildings, of which GEC LP 9 will purchase a portion of the buildings. In July and October 2018, GEC LP 9 entered into a first and second amendment respectively of the LP9 PDA. Pursuant to the second amendment of the LP9 PDA (“Amended LP9 PDA”), the parties agreed to provide an option to amend the agreement to reduce the number of buildings to be purchased by GEC LP 9 to one office tower and one residential tower if such option was exercised prior to February 2019. In January 2019, the option was exercised, and the combined square footage was reduced, and the purchase price amended 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. See Note 24(b) for commitments associated with this project.

In March 2019, the final deposit of \$5,000 was paid, with total deposits of \$60,000 paid pursuant to the Amended LP9 PDA. The Amended LP9 PDA includes a provision that \$20,000 of the deposits will be returned to GEC LP 9 in accordance with the terms of the agreement. As certain milestones were not met by the developer on the first potential payment date, the \$20,000 deposit became subject to interest of 15% per annum commencing August 1, 2019 until all of the deposit and accrued interest thereon were paid. Subsequent to August 31, 2019, the parties amended the repayment terms, with \$5,000 to be paid in the quarter ending February 29, 2020, and the remaining \$15,000 to be paid based on the developer reaching certain milestones but in no case later than April 30, 2020 at which time interest on the outstanding balance will increase to 20% per annum.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 7 – DEVELOPMENT ASSETS (cont'd)

GEC 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 serviced investment property. However, as the conditions precedent to the purchase were not satisfied, this purchase agreement was terminated in December 2018. In January 2019, a subsidiary of the Company entered into three separate purchase and sale agreements for the purchase of three parcels of land for a purchase price totaling \$30,300 for the same purpose. The agreements include a provision to assign the agreements to GEC LP 10 on closing. The closing of the land purchases was originally expected by August 2019; however, in April 2019 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 year ended August 31, 2019 and the Company expects to complete the purchase of the lands and assignment to GEC LP 10 in the quarter ending February 29, 2020. During the year ended August 31, 2019, the Company paid deposits to the vendors totaling \$1,650.

NOTE 8 – TRADE AND OTHER RECEIVABLES

	August 31, 2019		August 31, 2018	
Trade receivables ⁽¹⁾⁽²⁾	\$	14,349	\$	13,763
Less: credit loss allowance (Note 22)		(1,924)		(1,449)
Net trade receivables	\$	12,425	\$	12,314
Promissory note receivable		488		863
Proceeds receivable on disposal ⁽³⁾		-		5,415
Loans receivables and other		8,406		598
	\$	21,319	\$	19,190

(1) Includes receivables for real estate tenants (Note 6).

(2) Includes amounts due from related party WFU (Note 25).

(3) Proceeds receivable associated with sale of GEC Project 5 commercial units (Note 6(f)).

Promissory note receivable

The Company entered into a series of promissory notes with the developer of one of its investment properties starting July 2016 and at August 31, 2019, payments of principal and interest are being paid to the limited partnership who holds this promissory note receivable and final payment is expected within the year ending August 31, 2020. The note attracts interest at the rate of 10% per annum starting in fiscal 2019 and the note is secured by personal guarantees of the directors of the developer.

Loan receivables and other

Other receivables represent financial assets measured at amortized cost and includes amounts due to the Company or real estate limited partnerships controlled by the Company from third parties associated with real estate development transactions. In August 2019, GEC LP 9 advanced a total of \$7,000 to an arm's-length limited partner under loan receivable agreements. The loan receivables are due on demand and do not bear interest until demand for repayment has been made. Commencing from the date on which demand for repayment is made until all amounts owing have been paid, the principal shall bear interest at 7% per annum. The borrower may prepay the loan without notice, penalty or bonus. The loans receivable is secured by a pledge against limited partnership units of GEC LP 9 held by the borrower.

All other amounts are due on demand and do not attract interest. Subsequent to August 31, 2019, \$857 of the other receivables balance was received.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 9 – PROPERTY AND EQUIPMENT**(a) Reconciliation of carrying amounts**

	Land & Buildings	Furniture & equipment	Leaseholds	Equipment Lease ⁽¹⁾	Total
Cost					
August 31, 2017	\$ -	\$ 6,118	\$ 4,565	\$ 1,179	\$ 11,862
Additions	-	1,604	934	141	2,679
Acquired in business combination	56,879	265	-	-	57,144
Disposals	-	(358)	(1,412)	(139)	(1,909)
Foreign exchange adjustments	-	2	-	-	2
August 31, 2018	56,879	7,631	4,087	1,181	69,778
Additions	-	803	412	6	1,221
Disposals	-	(23)	(65)	-	(88)
Foreign exchange adjustments	-	(11)	-	-	(11)
August 31, 2019	\$ 56,879	\$ 8,400	\$ 4,434	\$ 1,187	\$ 70,900
Accumulated Depreciation					
August 31, 2017	\$ -	\$ (4,062)	\$ (3,184)	\$ (474)	\$ (7,720)
Depreciation for the year	(136)	(727)	(589)	(173)	(1,625)
Disposals	-	358	1,410	76	1,844
Foreign exchange adjustments	-	-	1	-	1
August 31, 2018	(136)	(4,431)	(2,362)	(571)	(7,500)
Depreciation for the year	(287)	(979)	(639)	(134)	(2,039)
Disposals	-	23	14	-	37
Foreign exchange adjustments	-	11	7	-	18
August 31, 2019	\$ (423)	\$ (5,376)	\$ (2,980)	\$ (705)	\$ (9,484)
Net carrying amounts					
At August 31, 2018	\$ 56,743	\$ 3,200	\$ 1,725	\$ 610	\$ 62,278
At August 31, 2019	\$ 56,456	\$ 3,024	\$ 1,454	\$ 482	\$ 61,416

(1) The Company leases equipment under a number of finance leases. Leased equipment secures lease obligations (Note 13).

(2) During the year ended August 31, 2019, a loss of \$51 was recognized on disposal of assets that is included in Other income (expense), net on the Consolidated Statements of Comprehensive Income (2018 – loss of \$8).

(b) Acquisition of real estate property, designated as owner-occupied

As described in Note 5(b), the Company acquired land and building which operates as one of the GEC® branded student housing facilities from which it earns rental revenues. The Company previously managed this operation under a management agreement with GEC LP 4 and continues to manage the operation now held in GEC LP 8. The costs of these assets were based on the fair value assigned to the identifiable assets of \$57,144 was allocated \$42,935 to land and \$13,944 to building, based on the relative fair values based on property assessments and \$265 to furniture and equipment. Depreciation commenced on March 15, 2018. GEC LP8 borrowings are secured by a mortgage over the property. This property, which is zoned as a hotel, is classified as owner-occupied property.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 10 – INTANGIBLE ASSETS

Summary of intangible assets follows:

Total intangible assets	August 31, 2019		August 31, 2018	
Intangible assets with definite life	\$	2,056	\$	2,470
Intangible assets with indefinite life		6,605		6,987
Total intangible assets	\$	8,661	\$	9,457

Intangible assets with definite life	Curriculum		Foreign cooperative agreements		Agency fees		Total	
Cost								
August 31, 2017	\$	2,060	\$	917	\$	5,745	\$	8,722
Additions		3		-		1,451		1,454
Foreign exchange adjustments		-		2		-		2
August 31, 2018		2,063		919		7,196		10,178
Additions		3		-		1,213		1,216
Foreign exchange adjustments		-		(13)		-		(13)
August 31, 2019	\$	2,066	\$	906	\$	8,409	\$	11,381
Accumulated amortization								
August 31, 2017	\$	(1,034)	\$	(740)	\$	(4,179)	\$	(5,953)
Amortization		(161)		(26)		(1,566)		(1,753)
Foreign exchange adjustments		-		(2)		-		(2)
August 31, 2018		(1,195)		(768)		(5,745)		(7,708)
Amortization		(161)		(15)		(1,451)		(1,627)
Foreign exchange adjustments		-		10		-		10
August 31, 2019	\$	(1,356)	\$	(773)	\$	(7,196)	\$	(9,325)
Net carrying amounts								
At August 31, 2018	\$	868	\$	151	\$	1,451	\$	2,470
At August 31, 2019	\$	710	\$	133	\$	1,213	\$	2,056
Weighted average remaining useful life in years		5.97		5.0		0.50		2.68

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 10 – INTANGIBLE ASSETS (cont'd)

Intangible assets with indefinite life	Accreditations & registrations	Brand-names & tradenames	Chinese university agreements	Total
Cost				
At August 31, 2017	\$ 2,965	\$ 4,221	\$ 461	\$ 7,647
Impairment loss ⁽¹⁾	(28)	(632)	-	(660)
At August 31, 2018	2,937	3,589	461	6,987
Impairment loss ⁽¹⁾	(374)	(8)	-	(382)
At August 31, 2019	\$ 2,563	\$ 3,581	\$ 461	\$ 6,605

⁽¹⁾ At August 31, 2019 and August 31, 2018, certain indefinite life assets were determined to have no recoverable value and were written off. During the year ended August 31, 2019, an impairment loss of \$382 (year ended August 31, 2018 - \$660) was recognized in Other income (expense), net in the Consolidated Statements of Comprehensive Income (Note 19).

NOTE 11 – IMPAIRMENT TESTING OF INTANGIBLE ASSETS AND GOODWILL**(a) Carrying amounts**

For purposes of impairment testing, the following reflect the carrying amounts of indefinite life intangible assets and goodwill by cash-generating unit (“CGU”).

	August 31, 2019	August 31, 2018
Intangible Assets with Indefinite Life ⁽¹⁾		
Sprott Shaw College Corp.	\$ 5,857	\$ 5,936
Sprott Shaw Language College (B.C.) Corp.	25	164
Sprott Shaw Language College (Ontario) Corp.	55	170
CIBT Beihai International College	461	461
Vancouver International College	207	256
	<u>\$ 6,605</u>	<u>\$ 6,987</u>
Goodwill		
Sprott Shaw College Corp.	\$ 5,218	\$ 5,218
Sprott Shaw Language College (B.C.) Corp. ⁽²⁾	1,041	2,341
Sprott Shaw Language College (Ontario) Corp.	916	916
Vancouver International College	1,581	1,581
GEC Master 1 Limited Partnership ⁽³⁾	300	300
	<u>\$ 9,056</u>	<u>\$ 10,356</u>

⁽¹⁾ During the year ended August 31, 2019 and 2018, the carrying amounts reflect the write down of certain assets (Note 10) before impairment testing due to qualitative factors.

⁽²⁾ During the year ended August 31, 2019, the carrying amount of goodwill reflects the impairment charge of \$1,300.

⁽³⁾ During the year ended August 31, 2018, \$300 of goodwill was recognized associated with the GEC LP 4 business combination (Note 5).

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 11 – IMPAIRMENT TESTING OF INTANGIBLE ASSETS AND GOODWILL

(b) Impairment testing for CGUs containing goodwill

The Company is required to test, on an annual basis, whether impairment exists in any of its CGU's. The recoverable amount of each CGU is calculated based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The annual impairment test concluded that the recoverable amount of each CGU aside from the Sprott Shaw Language College (B.C.) Corp. ("SSLC BC") was higher than its carrying amount, and therefore there was no impairment. However, there was an impairment charge of \$1,300 for the SSLC BC CGU at August 31, 2019 which was fully allocated to goodwill and included in Other income (expense), net on the Consolidated Statements of Comprehensive Income. The project value in use for the SSLC BC CGU was adversely impacted by a longer than expected period of time to integrate the assets acquired from KGIC Inc. (formerly Loyalty Group Inc.) in 2017. There were no other impairments to the value of the indefinite life intangible assets or goodwill at August 31, 2019.

The key assumptions used in the estimation of the recoverable amounts were as follows. The values assigned to the key assumptions represent management's assessment of cash flow projections based on expectations of revenue growth, expense and margin changes for each cash-generating unit based on historical data from both external and internal sources. Cash flows were projected over a five-year period based on past experience and actual operating results.

	Discount rate ⁽¹⁾		Growth rate ⁽²⁾	
	2019	2018	2019	2018
Sprott Shaw College Corp.	22.6%	25.5%	2.3%	1.5%
Sprott Shaw Language College (B.C.) Corp.	23.5%	28.5%	3.4%	17.5%
Sprott Shaw Language College (Ontario) Corp.	28.3%	29.9%	6.4%	19.9%
CIBT Beihai International College	33.0%	31.9%	1.0%	1.6%
Vancouver International College	24.9%	27.7%	(0.4)%	(0.7)%
GEC Granville Limited Partnership ⁽³⁾	9.0%	-	3.8%	-

(1) The discount rate is a pre-tax measure estimated based on market sources in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect the specific risks of each CGU. The discount rate represents the midpoint of the ranges of risks.

(2) Growth rate represents the five-year compound annual growth rate based on expected revenue growth taking into account past experience, estimated sales volume and price growth for the next year. This amount is used to budget the forecasted cash flows for the five years using a terminal value capitalization rate where forecasts were not available for 5 years. The terminal value capitalization rate used was 2.0%, which is consistent with the Bank of Canada's inflation target and a reasonable representation of expected growth.

(3) GEC Granville Limited Partnership is the applicable CGU for goodwill recognized in GEC Master 1 Limited Partnership.

Significant management judgement is necessary to evaluate the impact of operating and economic changes on the Company. Critical assumptions include projected operating and administrative expenses, change in capital expenditures, growth rates, as well as an appropriate discount rate. If future growth and results of the Company differ significantly from management's current best estimates with respect to the critical assumptions noted above, it is reasonably possible that this could have an adverse impact on the estimated recoverable amounts of the Company, including the amounts of allocated goodwill and indefinite life intangible assets, and result in an impairment charge.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 12 – TRADE AND OTHER PAYABLES

Trade payables and other consisted of the following, all of which were current:

	August 31, 2019		August 31, 2018	
Trade accounts payable and accrued liabilities (below)	\$	10,733	\$	9,813
Payables due to related parties (Note 25)		1,312		2,184
Promissory note payable		586		1,053
Other payables		3,617		3,547
Trade and other payables	\$	16,248	\$	16,597

	August 31, 2019		August 31, 2018	
Trade accounts payable	\$	4,619	\$	4,313
Payroll and related liabilities		1,607		1,802
Tuition fees and grants payable		2,148		1,408
Tenant lease deposits and others		613		701
Tenant lease inducements		951		1,143
Borrowings interest		581		446
Other		214		-
	\$	10,733	\$	9,813

Promissory note payable

During the year ended August 31, 2018, a promissory note payable for \$1,500 was executed bearing interest at 0.66% per annum and repayable on January 31, 2019. The promissory note terms were changed to payable on demand and the remaining balance represents the original amount plus accrued interest less payments to date.

Other Payables

Certain subsidiaries of the Company owed amounts to certain third parties as the result of advances provided either: (a) from perspective third-party investors in certain real estate limited partnerships for the proposed sale of partnership units which represents a payable until the units are subscribed; or (b) from other parties associated with real estate limited partnerships agreements. There are no terms of repayment and balances do not attract interest, and these are expected to be repaid in the year ending August 31, 2020.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 13 – BORROWINGS

The carrying value of borrowings by entities controlled by the Company are as follows:

	August 31, 2019	August 31, 2018
Current liabilities		
Current portion of secured loans (a)	\$ 40,276	\$ 26,234
Current portion of 2017 convertible debentures (b)	247	247
Credit facility ⁽¹⁾	1,422	1,895
Current portion of finance lease liabilities (d)	144	177
	<u>\$ 42,089</u>	<u>\$ 28,553</u>
Non-current liabilities		
Secured loans (a)	93,444	85,894
Convertible debentures issued in 2017 (b)	432	679
Convertible debentures issued in 2019 (c)	7,847	-
Finance lease liabilities (d)	339	478
	<u>\$ 102,062</u>	<u>\$ 87,051</u>
Total borrowings	<u>\$ 144,151</u>	<u>\$ 115,604</u>

⁽¹⁾ Secured, non-revolving variable rate demand loan funded in March 2017 at original amount of \$2,500 repayable in 60 monthly instalments of principal and interest. The credit facility may be prepaid, is subject to certain covenants and repayment is guaranteed by a related party. See Note 22 for information on undrawn balances associated with a revolving facility.

(a) Secured loans

The following table is a continuity of the activity of the loans secured by mortgages associated with the real estate business:

	August 31, 2019	August 31, 2018
Balance, beginning of year	\$ 112,128	\$ 55,298
Advances	62,500	76,806
Assumption of debt in asset acquisition (Note 6(c))	27,000	-
Assumption of debt in business combination (Note 5)	-	22,500
Repayments	(66,932)	(41,920)
Finance costs incurred	(2,221)	(1,596)
Accretion of finance costs ⁽¹⁾	1,244	1,040
Total current and non-current secured loans	<u>\$ 133,719</u>	<u>112,128</u>

⁽¹⁾ During the year ended August 31, 2019, one loan was modified resulting in a loss on debt modification of \$155 which was fully expensed as accretion of finance costs at August 31, 2019. Balance also includes expense as accretion of finance costs for the opening balance sheet adjustment of \$123 (Note 4(a)) as both modified loans were extinguished at August 31, 2019.

Total interest expense was \$5,921 for the year ended August 31, 2019 (August 31, 2018 - \$4,596). Approximately 70% of the outstanding borrowings at August 31, 2019 have variable interest rates linked to the Canadian prime rate. Certain interest rates are subject to minimum and maximum rates with certain loans including escalation clauses. The weighted average interest rate of variable debt was 6.93% for the year ended August 31, 2019 (2018 – 6.61%).

Loan payments are interest only or blended payments of principal and interest. Secured loans have maturities ranging from December 2019 to September 2021. Full repayment of loans before maturity is permitted subject to specific criteria and satisfaction of minimum interest payment requirements. See Note 22 for cash flow commitments related to these loans and Note 27 for financing occurring subsequent to August 31, 2019.

The fair values of the secured loans are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 13 – BORROWINGS (cont'd)**(a) Secured loans (cont'd)**

The loans are secured by a first and/or second mortgage, as applicable, whereby the first mortgagor must approve the second mortgage and any additional mortgages. For revenue-producing properties, the mortgage security is the assets of the specific real estate project, an assignment of rents and a general security agreement from each of the borrowers. For property under development, security represents deposits provided by the Company to the developer, a general assignment of all fixed price contracts, development permits and plans related to the proposed development, and other guarantees from the Company and its subsidiaries. In the majority of cases, the associated limited partnership is required to pay the insurance premium in favor of the lender. Certain commitment fees are customarily paid associated with commitment letters and other financing costs are incurred which are accreted over the term of the loans.

(b) 2017 Convertible Debentures

In June 2017, the Company issued convertible debentures (the “2017 Debentures”) in the aggregate principal sum of \$1,268 maturing on June 7, 2022. Payments of 60 equal principal instalments plus accrued interest at the rate of 4% per annum are paid monthly. The Company has the right to prepay all or a portion of the principal sum then outstanding and accrued but unpaid interest, without payment of a bonus or penalty. All or part of the principal sum is convertible to common shares at the election of the holder at a price of \$0.79 per share. The Company has the right to deliver repayment of the principal sum then outstanding should it chose. The Company also has the right to convert the principal sum into common shares if a condition precedent is met. During the year ended August 31, 2018, holders of \$5 of 2017 Debentures converted their instruments for 6,075 common shares of the Company. No 2017 Debentures were converted during the year ended August 31, 2019. At initial recognition, the net proceeds of the 2017 Debentures were recognized at fair value through profit or loss (“FVTPL”). The financial instrument includes an embedded derivative as the Company has the right to settle the 2017 Debentures by cash repayment instead of accepting the holders’ conversion notice. The embedded derivative has a value of \$nil and as such the host debt and derivative do not require bifurcation.

(c) 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 the prepayment option or extension option as part of the terms of these 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. Conversion prices are set in the currency of funding and range between HKD 4.80 and 5.00 for HKD denominated debentures and \$0.78 for Canadian dollar debentures. Interest payments will be made either quarterly or semi-annually at a rate of either 8% or 9% per annum as specified in the debenture. Accrued interest is included in Accounts payable and accrued liabilities on the Consolidated Statement of Financial Position at August 31, 2019. The 2019 Debentures are presented as follows:

Proceeds from issue	\$	8,642
Less: fair value of embedded derivatives ⁽¹⁾		(1,272)
Less: equity component of Canadian debenture, net of transaction costs ⁽²⁾		(151)
Less: transaction costs ⁽³⁾		(248)
Carrying value of host liability at inception		6,971
Accretion of carrying value of host liability		124
Foreign exchange adjustments		(38)
Carrying value of host liability at August 31, 2019	\$	7,057
Fair value of embedded derivatives at inception	\$	1,272
Fair value decrease in liability		(475)
Foreign exchange adjustments		(7)
Balance, embedded derivatives at August 31, 2019	\$	790
Total 2019 Debentures at August 31, 2019 ⁽⁴⁾	\$	7,847

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 13 – BORROWINGS (cont'd)

(c) 2019 Convertible Debentures (cont'd)

- (1) At initial recognition, the HKD denominated convertible debentures included a host liability classified as a financial liability at amortized cost, an embedded derivative classified as fair value through profit or loss (“FVTPL”), and an embedded conversion option classified as FVTPL. The fair value of the embedded derivatives was determined first with the residual amount of the principal amount allocated to the host liability.
- (2) At initial recognition, the Canadian denominated convertible debentures were considered a compound financial instrument and included a host liability classified as amortized cost, an embedded derivative classified as FVTPL, and a conversion option classified as equity. The fair value of the host liability and combined embedded derivatives were determined first with the residual amount of the principal amount allocated to the equity component.
- (3) Transaction costs totaling approximately \$296 was incurred of which \$48 were expensed in the year ended August 31, 2019.
- (4) GECH granted a guarantee to each of the holders of the 2019 Debentures guaranteeing the payment of all amounts owing by the Company to the holder under their 2019 Debenture.

(d) Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2019	2018	2019	2018	2019	2018
Less than one year	\$ 176	\$ 219	\$ 32	\$ 42	\$ 144	\$ 177
Between one and five years	371	541	32	63	339	478
Later than 5 years	-	-	-	-	-	-
	<u>\$ 547</u>	<u>\$ 760</u>	<u>\$ 64</u>	<u>\$ 105</u>	<u>\$ 483</u>	<u>\$ 655</u>

At August 31, 2019, the remaining average lease term is 40 months (2018 – 37 months). The Company has options to purchase the equipment at fair market value at the end of the lease terms and must pay any remaining minimum lease payments upon early cancellation of the lease. The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

NOTE 14 – SHARE CAPITAL

(a) Common Shares

Authorized share capital consists of 150,000,000 common shares without par value. During the year ended August 31, 2019, the Company issued 107,500 common shares associated with: (a) the issuance of 82,500 common shares on exercise of vested stock options; and (b) the issuance of 25,000 common shares on exercise of warrants. The Company also cancelled 1,760,000 treasury shares as detailed below.

(b) Treasury shares

Pursuant to the provisions of a normal course issuer bid (“NCIB”) approved by the Toronto Stock Exchange (the “TSX”), the Company from time to time acquires its own common shares for cancellation. In December 2018, the Company received approval from the TSX to 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 to 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. The prior NCIB expired on December 13, 2018. The Company suspended its current NCIB on April 25, 2019 in advance of the issuance of the 2019 Debentures (Note 13(c)) and resumed the NCIB on June 13, 2019. The Company determines the actual number of common shares to purchase and the timing of such purchase in accordance with the NCIB. See Note 27 (a) for activity subsequent to August 31, 2019.

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 14 –SHARE CAPITAL (cont'd)

(b) Treasury shares (cont'd)

The following table details changes in the treasury shares balance:

	Number		Value
Balance, August 31, 2017	255,000	\$	164
Purchases of treasury shares	849,500		689
Cancellation of treasury shares	(721,000)		(531)
Balance, August 31, 2018	383,500	\$	322
Purchases of treasury shares	2,721,500		1,832
Cancellation of treasury shares	(1,760,000)		(1,323)
Balance, August 31, 2019	1,345,000	\$	831

(c) Reconciliation of and share purchase warrants outstanding

The Company's stock purchase warrant activity is summarized as follows:

	Number of Warrants 2019	Weighted Average Exercise Price	Number of Warrants 2018	Weighted Average Exercise Price
Outstanding at September 1,	1,987,196	\$ 0.75	3,690,362	\$ 0.75
Exercised during the year	(25,000)	\$ 0.75	(493,690)	\$ 0.75
Expired/forfeited during the year	(1,962,196)	\$ 0.75	(1,209,476)	\$ 0.75
Outstanding at August 31	-	\$ -	1,987,196	\$ 0.75
Exercisable at August 31	-	\$ -	1,987,196	\$ 0.75

The share purchase warrants outstanding weighted average contractual life at August 31, 2018 was 0.5 years.

(d) Basic and diluted common shares outstanding

The calculations of basic and diluted earnings per share are based on the following.

	August 31, 2019		August 31, 2018
Net income attributable to CIBT shareholders	\$ 2,614	\$	19,942
<u>Adjustment for dilutive instruments:</u>			
Impact on 2019 Debentures, net of tax ⁽¹⁾	(134)		-
Interest savings on 2017 Debentures, net of tax	24		31
Net income used in calculation of diluted net income per share	\$ 2,504	\$	19,973

⁽¹⁾ Includes the impact of interest savings offset by changes in fair value of embedded derivatives and foreign exchange.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 14 – SHARE CAPITAL (cont'd)**(d) Basic and diluted common shares outstanding (cont'd)**

	August 31, 2019	August 31, 2018
Basic weighted average number of common shares outstanding	76,737,802	78,287,329
Effect of in-the-money stock options ⁽¹⁾	89,886	154,983
Effect of in-the-money share purchase warrants ⁽¹⁾	175	2,646
Effect of 2019 Debentures	3,025,470	-
Effect of 2017 Debentures	1,171,866	1,485,175
Diluted weighted average number of common shares outstanding	81,025,199	79,930,133

⁽¹⁾ The average market value of the Company's common shares for the purpose of calculating the dilutive effect of stock options and share purchase warrants was based on the quoted market prices for the period of time the instruments were outstanding.

Basic net income per CIBT shareholder	\$ 0.03	\$ 0.25
Diluted net income per CIBT shareholder	\$ 0.03	\$ 0.25

At August 31, 2019, the following instruments were excluded from the calculation of the diluted weighted average number of common shares outstanding as they were anti-dilutive: 2,345,000 stock options (August 31, 2018 - 1,265,000 stock options).

NOTE 15 – SHARE BASED PAYMENT ARRANGEMENTS**(a) Description of share-based payment arrangements – equity settled**

The Company has a rolling stock option plan (the "Plan") whereby a maximum of 10% of the issued and outstanding shares of the Company, from time to time, may be reserved for issuance pursuant to the exercise of options. The material terms of the Plan are as follows:

- The term of any options granted under the Plan is fixed by the board of directors or committee thereof at the time the options are granted, to a maximum term of 10 years.
- The exercise price of any options granted under the Plan is determined by the board of directors or committee thereof but shall not be less than the average closing price of the Company's common shares on the TSX for the five trading days (on which at least one board lot of the common shares was traded) preceding the grant of such options.
- The board of directors or committee thereof sets the vesting schedule of the stock options granted under the Plan.
- All options granted under the Plan are non-assignable and non-transferable.
- If an option holder ceases to hold a position with the Company in which the option holder would be eligible to be granted an option (other than by reason of death), then the option granted shall expire on the date on which the option holder gives notice that the option holder will cease to be employed or engaged by the Company.

For the year ended August 31, 2019, share-based payment expense was \$251 (year ended August 31, 2018 - \$263) and is included as a separate line item on the Consolidated Statements of Comprehensive Income.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 15 – SHARE BASED PAYMENT ARRANGEMENTS (cont'd)**(b) Measurement of fair values – equity settled arrangements**

The weighted average fair value of stock options granted during the year ended August 31, 2019 of \$0.32 per option (August 31, 2018 - \$0.44 per option) was calculated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions and inputs:

	Year Ended August 31, 2019	Year Ended August 31, 2018
Expected life	5.00 years	5.00 years
Risk-free interest rate	1.91%	2.01%
Expected dividend yield	0.00%	0.00%
Expected volatility	50.6%	63.84%
Weighted average share price	\$ 0.71	\$ 0.78

The expected volatility is based on historical volatility of the Company's share price on the TSX equal to the expected term. The risk-free interest rate is based on yield curves on Canadian government zero coupon bonds with a remaining term equal to the stock options expected life. The Company estimated a forfeiture rate of 5.25% for the stock options granted during the year ended August 31, 2019 (year ended August 31, 2018 – 3.52%). Vesting is set as described in (a) above and may vary; however, generally options vest as to 25% on date of grant with the remainder vesting 25% on each of the next three anniversary dates of the grant.

(c) Reconciliation of and stock options outstanding

The Company's stock option activity is summarized as follows:

	Number of Options 2019	Weighted Average Exercise Price	Number of Options 2018	Weighted Average Exercise Price
Outstanding at September 1,	1,867,500	\$ 0.72	1,637,500	\$ 0.71
Granted during the year	1,000,000	\$ 0.71	300,000	\$ 0.74
Exercised during the year	(82,500)	\$ 0.40	(10,000)	\$ 0.38
Expired/forfeited during the year	(362,500)	\$ 0.61	(60,000)	\$ 0.71
Outstanding at August 31	2,422,500	\$ 0.74	1,867,500	\$ 0.72
Exercisable at August 31	1,366,250	\$ 0.75	941,250	\$ 0.69

The options outstanding at August 31, 2019 had an exercise price range of \$0.38 to \$0.86 (August 31, 2018 - \$0.37 to \$0.86) and a weighted average contractual life of 3.47 years (2018 – 3.79 years). The weighted average share price at the date of exercise for stock options exercised in 2019 was \$0.75 (2018 - \$0.74).

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 16 – INTERESTS IN OTHER ENTITIES

(a) Transactions with non-controlling interests

The Company's subsidiaries GEC Master 1 Limited Partnership ("Master 1") and GEC Master 2 Limited Partnership ("Master 2") own limited partnership units in the real estate projects controlled by the Company. The following table summarizes the non-controlling interests and the Company's ownership of the individual limited partnerships which hold the real estate projects. Non-controlling interests subscribe to units in the limited partnerships which hold the real estate projects. The Company earns development fee revenues associated with these subscriptions and reinvests these monies via the purchase of limited partnership units in the same proportion as the non-controlling interests. This results in the percentage of ownership of the Company and the non-controlling interest remaining consistent with the exception of the equity events.

Real Estate Projects	Formed	Non-controlling interest %		Company's Ownership %	
		August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
GEC Limited Partnership 1	March 2016	76.97%	76.97%	23.03%	23.03%
GEC Limited Partnership 2	May 2014	61.50%	61.50%	38.50%	38.50%
GEC Limited Partnership 3	December 2014	80.00%	80.00%	20.00%	20.00%
GEC Limited Partnership 4 ⁽¹⁾	November 2015	0.00%	0.00%	100.00%	100.00%
GEC Limited Partnership 5	November 2015	75.00%	75.00%	25.00%	25.00%
GEC Limited Partnership 6	August 2016	72.94%	72.94%	27.06%	27.06%
GEC Limited Partnership 7	August 2016	79.01%	79.01%	20.99%	20.99%
GEC Limited Partnership 8	October 2017	53.33%	53.33%	46.67%	46.67%
GEC Limited Partnership 9 ⁽²⁾	February 2018	72.54%	80.00%	27.46%	20.00%
GEC Limited Partnership 10	October 2018	80.00%	0.00%	20.00%	0.00%

⁽¹⁾ Limited Partnership dissolved in the year ended August 31, 2019.

⁽²⁾ During the year ended August 31, 2019, the Company increased its ownership percentage in GEC LP 9 as Master 2 purchased units in GEC LP 9 with no corresponding purchase by a third-party investor.

The following continuity reflects the movement in the equity attributable to non-controlling interests in the Company. Additional information about each subsidiary which has a non-controlling interest is presented in Note 29 – *Segmented Information*:

	CIBT China		IRIX		GECH ⁽¹⁾		Total
August 31, 2017	\$	45	\$	(184)	\$	47,420	\$ 47,281
Net contributions ^(2,4,5,6)		-		-		51,725	51,725
Ownership changes ⁽⁷⁾		-		-		(88)	(88)
Net withdrawals		-		-		(2,136)	(2,136)
Allocation of income (loss)		(9)		17		25,421	25,429
Unrealized translation adjustments		-		-		-	-
August 31, 2018		36		(167)		122,342	122,211
IFRS 9 opening balance sheet		-		-		(66)	(66)
Net contributions ^(2,3)		-		-		17,004	17,004
Ownership changes ⁽⁷⁾		-		-		1,486	1,486
Net withdrawals ⁽⁸⁾		-		-		(10,246)	(10,246)
Allocation of income (loss)		(3)		1		12,320	12,318
Unrealized translation adjustments		(1)		-		-	(1)
August 31, 2019	\$	32	\$	(166)	\$	142,840	\$ 142,706

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 16 – INTERESTS IN OTHER ENTITIES (cont'd)

(a) Transactions with non-controlling interests

- (1) GECH represents non-controlling interest activity as presented in table above.
- (2) GEC LP 9. Cash flow from subscriptions from non-controlling qualified investors for limited partnership units for the year ended August 31, 2019 were \$7,408 (August 31, 2018 - \$35,310).
- (3) GEC LP 10. Cash flow from subscriptions from non-controlling qualified investors for limited partnership units for the year ended August 31, 2019 were \$9,596 (2018 - \$Nil).
- (4) GEC LP 8. Cash flow from subscriptions from non-controlling qualified investors for limited partnership units for the year ended August 31, 2019 were \$Nil (2018 - \$9,600).
- (5) GEC LP 7. Cash flow from subscriptions from non-controlling qualified investors for limited partnership units for the year ended August 31, 2019 were \$Nil (2018 - \$5,500).
- (6) GEC LP 2. In conjunction with the purchase of the investment property, final limited partnership subscriptions from non-controlling interests of \$1,315 were received in the year ended August 31, 2018.
- (7) During the year ended August 31, 2019, the Company sold certain GEC LP 9 units to a non-controlling interest resulting in increased non-controlling interest ownership for consideration of \$2,000, with the excess over the carrying value recognized as an equity transaction and recorded in ownership change reserves in the Consolidated Statements of Changes in Equity. During the year ended August 31, 2018, the Company purchased units from a non-controlling interest in GEC LP 7 for consideration of \$240, with the excess of \$152 over carrying value recognized as an equity transaction and recorded in ownership change reserves in the Consolidated Statements of Changes in Equity.
- (8) Net distributions of \$9,292 were made to GEC LP 3 during the year ended August 31, 2019 following the sale of the investment property in August 2018. Other distributions were made to investors in certain operating properties.

For the year ended August 31, 2019, net cash provided from non-controlling interests was \$8,758, comprised of net contributions offset by net withdrawals adjusted for cash consideration received of \$2,000 related to ownership changes. For the year ended August 31, 2018, net cash provided from non-controlling interests was \$49,349, comprised of net contributions offset by net withdrawals adjusted for cash consideration paid of \$240 related to ownership changes.

(b) Control of real estate projects

The Company and certain of its subsidiaries entered into several agreements and organizational transactions in connection with the development of the Company's student housing arm. In particular, the Company is developing a network of student centric serviced apartments for rental primarily to domestic and foreign students studying in Metro Vancouver and to provide various services to the students and their families.

The Projects are held in limited partnerships with various agreements governing the limited partnership, including the number of units to be issued and the funding contributions. Control exists when a company has power over the investee, has exposure or rights to variable returns from its involvement, and has the ability to use its power to affect the amount of investors' returns. Where control has been assessed, the general partner or its affiliates has been assessed to have complete responsibility for the conduct of all the business activities of the limited partnership. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies.

Although Master 1 and Master 2 owns less than half of the limited partnership units and thus less than half of the voting power, Management has determined that the Company and certain of its subsidiaries control these entities and accordingly, have consolidated the results of each limited partnership for the period subsequent to formation. One of the key factors in this determination is that the Company, through a management limited partnership, has the ability to direct the business of the partnership.

Rights under certain of the limited partnership agreements, including but not limited to the following instances, have been determined to be protective and not substantive and did not preclude the Company having control: (a) rights held by a widely dispersed group of limited partners who own the majority of the partnership units; (b) rights that require a majority of the units to be voted to remove the general partner; and (c) voting rights held by a small number of third-party investors that have no involvement in the business of the partnership.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 16 – INTERESTS IN OTHER ENTITIES (cont'd)**(c) Joint Operations**

CIBT and Weifang University established CIBT Beihai International Management School (“Beihai”), which is a Chinese-foreign cooperatively run school whose principal place of business is China, of which the Company has a 60% interest in the joint arrangement. The Company has recognized its proportionate share of assets, liabilities, revenues, and expenses of this business using the proportion consolidation method. Beihai results are included within the CIBT China reporting segment.

(d) Investment in Associates

As described in Note 5, on March 1, 2018, an entity controlled by the Company purchased an additional 10% of GEC LP 4 and in a separate transaction on March 15, 2018, an entity controlled by the Company purchased the remaining units of GEC LP 4 resulting in 100% ownership at which time management determined GEC LP 4 was controlled by the Company.

Since August 31, 2018, the Company no longer has any investments in associates. The following table shows the continuity of the change in the Company’s carrying value of its investments in associates for GEC LP 4.

Carrying value – September 1, 2017	\$	1,016
Purchase of additional 10% interest		627
Share of net income (loss) in investee		(199)
<hr/>		
Carrying value at March 1, 2018		1,444
Share of net income (loss) in investee		(40)
Adjustment on acquisition of control		(1,404)
<hr/>		
Carrying value – August 31, 2018 and August 31, 2019	\$	-

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	Year Ended August 31, 2019	Year Ended August 31, 2018
Advertising	\$ 3,761	\$ 3,545
Bank charges and interest	516	375
Credit loss allowance and write-offs ⁽¹⁾	1,239	876
Consulting and management fees	1,914	3,049
Directors insurance	17	47
Investor relations	94	96
Office and general	4,074	2,941
Professional fees	3,416	2,397
Rent	5,795	6,179
Salaries and benefits	12,827	12,463
Travel and promotion	378	426
	<hr/>	<hr/>
	\$ 34,030	\$ 32,394

⁽¹⁾ Includes write-offs not included in credit loss allowance of \$516.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 18 – FINANCE COSTS

	Year Ended August 31, 2019	Year Ended August 31, 2018
Interest expense	\$ 5,921	\$ 4,596
Finance fees	58	-
Accretion of borrowing finance fees ⁽¹⁾	1,090	1,040
Gain on derivatives, net (Note 13(c))	(475)	-
	<u>\$ 6,594</u>	<u>\$ 5,636</u>

⁽¹⁾ Includes accretion on debt modification loss.

NOTE 19 – OTHER INCOME (EXPENSE), NET

	Year Ended August 31, 2019	Year Ended August 31, 2018
Interest and other income	\$ 620	\$ 2,071
Foreign exchange (loss) gain	(100)	16
Loss from investment in associates	-	(670)
Business acquisition costs ⁽¹⁾	-	(85)
Impairment in value of indefinite lived assets (Note 10)	(382)	(660)
Impairment of goodwill (Note 11)	(1,300)	-
Loss on disposition of GEC Project 3 (Note 6(e))	-	(2,188)
Loss on disposition of commercial units GEC Project 5 (Note 6(f))	-	(223)
Gain on fair value acquisition date remeasurement ⁽¹⁾	-	4,715
Loss on disposal of property and equipment (Note 9)	(51)	(8)
	<u>\$ (1,213)</u>	<u>\$ 2,968</u>

⁽¹⁾ Related to GEC LP 4 business combination (Note 5).

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 20 – INCOME TAXES

The Company's operations are subject to income taxes primarily in Canada and China. Income tax provision (recovery) in these consolidated financial statements relates to CIBT's domestic operations in China and to SSCC's domestic operations in Canada.

Statutory tax rates	2019	2018
China	25.00%	25.00%
Canada	27.00%	26.67%

The following table is a reconciliation of income tax expense (recovery), at the Canadian income tax rate and the amount of reported income tax expense in the Consolidated Statements of Comprehensive Income.

	Year Ended August 31, 2019	Year Ended August 31, 2018
Income before taxes	\$ 16,087	\$ 52,354
Statutory Canadian income tax rate	27.0%	26.67%
Income tax recovery at statutory rate	4,343	13,963
Effect of differences in foreign tax rates	(3)	-
Gain on disposal of investment for tax	-	3,118
Non-deductible expenses, net	109	156
Effect of differences in prior period tax returns as filed	(870)	(155)
Change in deferred tax assets not recognized	(474)	(2,846)
Change in fair value of investment property	(2,715)	(5,852)
Impact of partnership loss (income) allocation	644	(1,083)
Other	121	119
Income tax expense	\$ 1,155	\$ 6,983
Consisting of:		
Current tax expense	\$ (4,484)	\$ 4,923
Deferred tax expense	5,639	2,060
	\$ 1,155	\$ 6,983

The Canadian Federal effective corporate tax rate is 15.0%. Effective January 1, 2018, the British Columbia provincial tax rate increased from 11.0% to 12.0%. The following table shows deferred income taxes resulting from temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amount used for tax purposes, as well as tax loss carry-forwards.

	Year Ended August 31, 2019	Year Ended August 31, 2018
Deferred income tax assets - Canada		
Non-capital loss carry-forwards	\$ 1,788	\$ 2,873
Share issuance and finance costs	378	339
Property and equipment	256	272
Intangible assets	552	77
Limited partnership interest	-	2,176
Net capital losses	6	7
Total deferred income tax assets	\$ 2,980	\$ 5,744

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 20 – INCOME TAXES (cont'd)

	Year Ended August 31, 2019	Year Ended August 31, 2018
Deferred income tax liabilities		
<u>Canada</u>		
Property and equipment	\$ (269)	\$ (197)
Change in fair value of investment property	(9,817)	(7,101)
Convertible debentures	(134)	-
Goodwill and intangible assets	(2,758)	(2,805)
<u>China</u>		
Intangible assets	(115)	(115)
Total deferred income tax liabilities	<u>\$ (13,093)</u>	<u>\$ (10,218)</u>
Classified as:		
Deferred tax assets, net	\$ 1,650	\$ 3,867
Deferred tax liabilities, net	(11,762)	(8,341)
Net deferred income tax liabilities	<u>\$ (10,112)</u>	<u>\$ (4,474)</u>

As at August 31, 2019, the Company recognized deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deductible temporary differences and unused tax losses for which a future benefit has not been recognized as a deferred tax asset include the following:

	August 31, 2019	August 31, 2018
Non-capital loss carry-forwards ⁽¹⁾	\$ 572	\$ 835
Net capital loss carry-forwards ⁽²⁾	195	195
Investments	-	1,594
Property and equipment in China	581	606
	<u>\$ 1,348</u>	<u>\$ 3,230</u>

⁽¹⁾ Carry-forwards are eligible to be applied to CIBT China earnings and expire in the year ending August 31, 2020 to 2024.

⁽²⁾ Carry-forwards are eligible to be applied for Canadian tax purposes and are carried forward indefinitely.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 21 – FINANCIAL INSTRUMENTS**(a) Classification and measurement of financial assets and liabilities by category**

The following represents the carrying values of the financial assets and liabilities of the Company and the associated classifications and measurement basis for each balance. The original measurement categories under IAS 39 for financial assets were loans and receivables which are now classified as financial assets at amortized cost under IFRS 9. There was no change in measurement basis on adoption of IFRS 9.

			<u>August 31, 2019</u>	<u>August 31, 2018</u>
Financial assets	Level	Measurement basis		
Cash and cash equivalents	1	Amortized cost	\$ 15,213	\$ 33,246
Restricted cash	1	Amortized cost	249	250
Trade and other receivables ⁽¹⁾	1	Amortized cost	21,319	19,190
Receivable from developer (Note 7) ⁽²⁾	1	Amortized cost	20,000	-
			<u>\$ 56,781</u>	<u>\$ 52,686</u>
Financial liabilities	Level	Measurement basis		
Trade and other payables	1	Amortized cost	16,248	16,597
Secured loans	2	Amortized cost	135,142	114,024
Finance lease obligations	2	Amortized cost	483	655
2019 Debentures – liability (Note 13(b))	2	Amortized cost	7,057	-
2019 Debentures – derivatives (Note 13(b))	3	FVTPL	790	-
2017 Debentures (Note 13(b))	2	FVTPL	679	926
			<u>\$ 160,399</u>	<u>\$ 132,202</u>

⁽¹⁾ Note 22 describes credit risk associated with trade receivables includes reconciliation of expected credit loss allowance.

⁽²⁾ Any fair value or accretion adjustments in accounting for this deposit were not significant.

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables, receivable from developer, and trade and other payables are considered reasonable approximations of their fair values due to the short-term nature of these instruments.

(b) Measurement of fair value*(i) Fair value of financial instruments and fair value hierarchy*

The fair value hierarchy establishes three levels to classify the significance of inputs to valuation techniques used in making fair value measurements of financial assets and liabilities (Note 29(O)). Level 1 instruments are measured on a recurring basis based on estimated fair value on exchange between willing parties.

Secured loans, finance lease obligations, the 2017 Debentures and the 2019 Debentures (loans) are categorized within Level 2 of the fair value hierarchy. The embedded derivatives portion of the 2019 Debentures are categorized within Level 3 of the fair value hierarchy. At August 31, 2019 and 2018 there were no financial assets and financial liabilities measured and recognized at fair value on a non-recurring basis.

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between any of the levels during the years ended August 31, 2019 and 2018.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 21 – FINANCIAL INSTRUMENTS (cont'd)

(b) Measurement of fair value (cont'd)

(ii) Valuation methodologies used in the measurement of fair value for Level 2 financial liabilities

The fair value of secured loans and finance lease obligations approximates their carrying value and has been determined by discounting the contractual cash flows using implied yields of obligations bearing similar credit risk and maturities. The convertible debentures issued in 2017 include a derivative liability which has been fair valued at \$Nil, with the principal balance representing the fair value of the convertible debt at the end of each reporting period. The fair value of the host liability for the Canadian denominated 2019 Debentures was calculated using a discounted cash flow analysis using a discount rate for a non-convertible 2-year corporate rate for similar companies

(iii) Valuation methodologies used in the measurement of fair value for Level 3 financial liabilities

The convertible debentures issued in May 2019 include an embedded derivative for the prepayment and extension options and an embedded conversion option in the HKD denominated debentures. The fair value of the embedded derivative was determined using a discounted cash flow which considers the present value of the expected future payments if the prepayment or extension option were exercised, discounted using a risk-adjusted discount rate. The expected cash flows are impacted by significant unobservable inputs: managements estimate of the probability of these options being exercised and the discount rate. The estimated fair value would increase (decrease) if the probability of the options being exercised was higher (lower) and if the discount rate was lower (higher). The fair value of the HKD denominated debenture conversion feature is calculated using the Black-Scholes option pricing model and is based on observable inputs with the exception of the possible date of conversion. The estimated fair value would increase (decrease) if the date of conversion was later (earlier). The embedded derivatives will be remeasured at each period end. The reconciliation of opening to closing balances for Level 3 fair values is presented in Note 13(c), unrecognized fair value changes recorded as gains in Finance costs on the Consolidated Statements of Comprehensive income.

NOTE 22 – 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.

(a) 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 Project 3, of which approximately \$12,000 was distributed to limited partners after August 31, 2018.

In addition, the Company has an undrawn demand operating credit facility of \$2,500 available if required less amounts drawn on credit cards. The Company anticipates capital financing could be raised if required which it has successfully raised in the past. However, there is no assurance that such financing will be available on favourable terms. Management prepares budgets and cash forecasts to ensure that the Company has sufficient funds to fulfill its financial obligations.

At August 31, 2019 and 2018, the Company was in a working capital deficit position. The majority of the Company's assets are long-term in nature; however, there are a significant amount of current borrowings and deferred revenues that contribute to the working capital deficit position. Total working capital deficit increased in the year ended August 31, 2019.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at August 31, 2019 and August 31, 2018. The amounts are gross and include contractual interest payments based on current market interest rates for variable debt and these rates may change. Minimum rental and lease payments under operating lease commitments and real estate project commitments are presented in Note 24.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 22 – RISK MANAGEMENT (cont'd)**(a) Liquidity risk (cont'd)**

	Less than one year	2-3 years	4-5 years	Total
<u>August 31, 2019</u>				
Trade and other payables	\$ 16,248	\$ -	\$ -	\$ 16,248
Income taxes payable	178	-	-	178
Secured loans	48,984	99,340	-	148,324
Finance lease payments	175	331	40	546
2019 Debentures	739	9,821	-	10,560
2017 Debentures	247	432	-	679
	<u>\$ 66,571</u>	<u>\$ 109,924</u>	<u>\$ 40</u>	<u>\$ 176,535</u>
<u>August 31, 2018</u>				
Trade and other payables	\$ 16,597	\$ -	\$ -	\$ 16,597
Income taxes payable	5,069	-	-	5,069
Secured loans	33,135	90,317	397	123,849
Finance lease payments	219	344	197	760
2017 Debentures	247	485	194	926
	<u>\$ 55,267</u>	<u>\$ 91,146</u>	<u>\$ 788</u>	<u>\$ 147,201</u>

At August 31, 2019, SSCC had one letter of credit outstanding in the total amount of \$25 (2018 – \$125 for two letters of credit in total).

(b) 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 limited to the following instruments. The Company's maximum exposure to credit risk is the carrying value of the financial assets (Note 21(a)).

Trade receivables

Trade accounts receivable are reviewed on an ongoing basis to ensure collection and minimize losses. Payment of trade receivables are scheduled, routine and generally received within contractually agreed time frames. The Company generates revenues from multiple sources and from a broad customer/client base. The majority of trade accounts receivable are amounts from the Company's education business.

Trade accounts receivable are from individual customers and are not assessed on the basis of external credit rating agencies. The Company uses a provision matrix to measure the ECL's of trade receivables from individual customers which comprise a very large number of small balances. The weighted average loss rates are calculated by entity based on the following common risk characteristics – age of receivable, type of customer relationship, and for education receivables whether students have completed instruction. Loss rates are based on actual credit loss experience and reflect forward looking conditions over the expected life of the receivable (Note 4(a)).

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 22 – RISK MANAGEMENT (cont'd)**(b) Credit risk (cont'd)***Trade receivables (continued)*

The following table provides information about the exposure to credit risk and ECL's from individual customers at December 31, 2019.

	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	1.7%	\$ 9,849	\$ 163	No
1 – 30 days past due	32.7%	285	93	No
31 – 60 days past due	71.6%	172	123	No
61 – 90 days past due	71.6%	143	103	No
More than 90 days past due	84.9%	1,693	1,437	Yes
WFU accounts receivable ⁽¹⁾	0.2%	2,207	5	No
Total		\$ 14,349	\$ 1,924	

⁽¹⁾ The gross carrying amount of the WFU trade receivables has not been assessed on the same basis as the ECL for other individual customers. Given the receivable is due from WFU which is a government owned institution, the credit risk associated with this balance is low (See Note 25(c)).

The movement in the expected credit loss allowance in respect of trade receivables was as follows:

	August 31, 2019		August 31, 2018	
Beginning balance	\$	1,449	\$	803
IFRS 9 opening balance sheet adjustment (Note 4(a))		125		-
Net remeasurement of loss allowance		723		845
Amounts written off during the year as uncollectible		(373)		(184)
Amounts recovered during the year		-		(15)
Ending balance	\$	1,924	\$	1,449

Other receivables

Credit risk associated with the promissory note receivable increased during the year associated with continued collection issues (Note 8). Management believes the security held including a general security agreement with the Developer, personal guarantees, and an assignment associated with unused funds currently held by a regulatory agency, is sufficient to reduce this risk.

Loan receivables and other are considered to have a low credit risk based on the security provided on the loans and the relationship between the parties.

Deposits made to be applied to the purchase price of a property are secured by mortgages against the property associated with the deposits. Credit risk has been assessed by Management as low and amounts are expected to be applied on date of purchase closing or on termination of an agreement received in cash.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 22 – RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

Cash and cash equivalents and restricted cash is held on deposit at major financial institutions and these balances are considered to have low credit risk based on the external credit ratings of the counterparties.

Financial Guarantees are provided in limited cases on certain subsidiary liabilities including debt financing (Note 13).

(c) Market Risk

This is the risk that the fair values of financial instruments will fluctuate owing to changes in market prices. The Company is exposed to currency risk and interest rate risk.

i. 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 rate 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. The weighted-average interest rate paid by the Company during the year ended August 31, 2019 on its secured loans and convertible debt 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), not considering interest costs which are capitalized.

ii. 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 the 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.

Exposure to currency risk

The Company holds a minor amount of cash in US dollars and the exchange rate fluctuation between the Canadian dollar and 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.

Operations of CIBT China

Financial assets and financial liabilities denominated in Chinese renminbi ("RMB") which expose the Company to currency risk, specifically the net statement of financial position exposure, are as follows (shown in thousands of RMB with the Canadian dollar equivalent in thousands converted at year-end rate):

	August 31, 2019		August 31, 2018	
	RMB	Canadian \$	RMB	Canadian \$
Financial assets	16,460	\$ 3,062	15,074	\$ 2,876
Financial liabilities	(1,512)	(281)	(1,710)	(326)
Net exposure	14,948	\$ 2,781	13,364	\$ 2,550

An appreciation or depreciation of the RMB against the Canadian dollar of 3% results in \$85 increase or decrease in foreign exchange gains/losses included in net income. The 3% benchmark represents the possible exposure based on fluctuations of foreign exchange rates during the year ended August 31, 2019.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 22 – RISK MANAGEMENT (cont'd)**(c) Market risk, Currency risk (cont'd)**

Restrictions on Chinese currency exchange may affect the Company's ability to repatriate profits from China. Capital control exists in China and there are many restrictions on the movement of money in and out of the country for anything except payments associated with exports and imports. At present, a company can repatriate up to 90% of profits from their China-based operations. A portion (at least 10% for wholly owned foreign entities), must be placed in a reserve account. This reserve is capped at 50% of a company's registered capital. To distribute the remainder, a company must obtain a board resolution authorizing distribution and file an application with China's State Administration of Taxation ("SAT") that includes an annual audit, tax receipts and other documents as required. SAT will then issue a Foreign Enterprise Income Tax Payment Certificate which will enable the bank to exchange Chinese RMB into the desired currency for remission of funds. As of August 31, 2019, the amount in the statutory reserve in China is \$Nil (2018 - \$Nil).

2019 Debentures

As described in Note 13(c), during the year ended August 31, 2019, the Company issued debentures most of which were denominated in Hong Kong dollars, and also opened a bank account in HKD. At August 31, 2019, financial assets and financial liabilities denominated in HKD which expose the Company to currency risk are as follows (shown in thousands of HKD with the Canadian dollar equivalent in thousands converted at year-end rate of 0.1704):

	August 31, 2019	
	HKD	Canadian \$
Financial assets	398	\$ 68
Financial liabilities	(45,164)	(7,696)
Net exposure	(44,766)	\$ (7,628)

The net exposure is mitigated at August 31, 2019 as the 2019 Debentures do not mature until the quarter ending May 31, 2021, the Company believes the likelihood of prepayment is limited and the Company has the option to extend the maturity date for an additional year. The Company is required to make certain interest payments in HKD each quarter and subsequent to August 31, 2019, the Company converted Canadian dollars to HKD to fund these payments. The average HKD rate from issuance of the 2019 Debentures to August 31, 2019 was 0.1696 and the rate varied by less than 1%.

An appreciation or depreciation of the HKD against the Canadian dollar of 1% would result in \$77 increase or decrease in foreign exchange gains/losses included in net income for the entire financial liability but only \$7 for interest payments due within the next year.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 23 – 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 the prior periods. The Company manages and adjusts its capital structure considering economic conditions and the risk characteristics of the underlying 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's capital is as follows:

	August 31, 2019	August 31, 2018
Total borrowings	\$ 144,151	\$ 115,604
Less: cash and cash equivalents	(15,213)	(33,246)
Net debt	128,938	82,358
Total equity	194,154	171,651
Less: Non-controlling interests' equity	(142,706)	(122,211)
CIBT shareholders' equity	\$ 51,448	\$ 49,440

At August 31, 2019 the Company expects its capital resources and projected future cash flows from operations to support its normal operating requirements on an ongoing basis, and other expansionary plans. At August 31, 2019, there was no externally imposed capital requirement to which the Company was subject and with which the Company did not comply.

From time to time, the Company purchases its own shares on the market depending on market prices and these treasury shares are cancelled periodically (Note 14(b)).

NOTE 24 – COMMITMENTS & CONTINGENCIES**(a) Operating Leases****(i) Future minimum lease payments – leases as lessee**

The Company leases office space under operating leases including corporate office space in Vancouver, B.C., office space in China, office and campus premises rental and equipment leases for SSCC and SSLC/VIC, and the rental of a previous property held as an investment property. The future minimum lease payments under non-cancellable leases were payable as follows:

	August 31, 2019	August 31, 2018
Less than one year	\$ 5,102	\$ 4,825
Between one and five years	13,774	14,198
More than five years	1,674	1,681
	\$ 20,550	\$ 20,704

(ii) Amounts recognized in net income

	August 31, 2019	August 31, 2018
Operating lease expense included in direct costs ⁽¹⁾	\$ 1,904	\$ 93
Rent included in general and administrative expense	5,795	6,179
	\$ 7,699	\$ 6,272

⁽¹⁾ In August 2018, in conjunction with the sale of the GEC Project 3 investment property, a wholly owned subsidiary of the Company, as Tenant, entered into a land and building sublease with the Purchaser, as landlord (Note 6(e)).

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 24 – COMMITMENTS & CONTINGENCIES (cont'd)

(a) Operating leases (cont'd)

(ii) Other

During the year ended August 31, 2019, a subsidiary of the Company entered into a lease agreement as Tenant and intends to lease a specific portion of residential units from the Landlord when the property to be leased is completed which is not expected to occur until the year ending August 31, 2022. The terms of the lease are dependant on factors that are not yet known and as such no future minimum lease payments have been presented above.

(b) Real Estate Projects

The Company and certain of its subsidiaries entered into agreements in connection with the development of the Company's student housing arm. The following table provides commitments made by certain limited partnerships at August 31, 2019.

	Less than one year	Between one and five years	Later than five years	Total
<u>Other Commitments</u>				
GEC Project 7	\$ -	\$ 11,630	\$ -	\$ 11,630
GEC Project 9	-	-	49,415	49,415
GEC Project 10	28,650	-	-	28,650
Total other commitments	<u>\$ 28,650</u>	<u>\$ 11,630</u>	<u>\$ 49,415</u>	<u>\$ 89,695</u>

Total other commitments are subject to change from the prior year depending on amendments to agreements executed during the current year. The above amounts exclude deposits made to August 31, 2019 (Note 7). Amounts due for Project 10 which are due in less than one year represent the remaining purchase price for the land. Amounts due for Project 7 represent contingent liabilities which may be paid if certain milestones are met by the previous developer, and do not contain commitments for other parties who will develop the property who are yet to be engaged. As further described in Note 7(c) if the milestones are not met and the Company elects to sell the property prior to the issuance of building permits certain payments will be due to certain third parties, none of which can be quantified at this time. Amounts due for Project 9 represent amounts due when the constructed property is completed and purchased. These capital commitments do not include costs for contracts not yet in place, renovation, furnishings, closing costs or taxes or costs which are not committed expenditures.

(c) Contingencies

The Company is a party to various other legal proceedings and claims that arise in the ordinary course of business as either a plaintiff or defendant. The Company analyzes all legal proceedings and the allegations therein. The outcome of any of these other proceedings, either individually or in the aggregate, is not expected to have a material adverse effect on the Company's financial position, results of operations or liquidity.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 25 – RELATED PARTY TRANSACTIONS

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 fair value.

(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 ⁽¹⁾	\$ 1,186	\$ 1,336
Due to the President of IRIX ⁽²⁾	126	126
Due to investors of GEC Project 3 ⁽³⁾	-	722
	<u>\$ 1,312</u>	<u>\$ 2,184</u>

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

⁽²⁾ Short-term advances and repayments have no terms of fixed terms of repayment and attract interest at 6% per annum.

⁽³⁾ Amount due to investors in GEC Project 3 associated with short-term advances attract interest at 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 ⁽¹⁾	\$ 4,611	\$ 3,741
Accounts payable – Weifang University ⁽¹⁾	2,404	1,649
	<u>\$ 2,207</u>	<u>\$ 2,092</u>

Beihai College has a joint arrangement with Weifang University (Note 16(c)). Beihai College tuition fees received in RMB are remitted directly to the Chinese Government and retained in RMB with the Chinese Government under the account of Weifang. Weifang requests funds from this account as required to fund operations, with the net amount presented above representing the amount available to fund operations converted to Canadian dollars. The amounts due represents the Company's share of receivables and balances are non-interest bearing and have no specific terms of repayment.

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 26 – SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net changes in working capital not including cash items are comprised of the following:

	Year Ended August 31, 2019	Year Ended August 31, 2018
Accounts receivable (increase) decrease	\$ (8,043)	\$ (3,477)
Prepayments (increase) decrease	213	199
Inventory (increase) decrease	38	(167)
Accounts payable and accrued liabilities increase (decrease)	921	3,257
Other payables increase (decrease)	(397)	3,973
Income taxes payable increase (decrease)	(8,461)	4,796
Deferred revenues increase (decrease)	(396)	5,121
Interest reserves (increase) decrease	(1,005)	(300)
	<hr/>	<hr/>
(Increase) decrease in working capital	\$ (17,130)	\$ 13,402

The working capital items have been adjusted for the effects of non-cash changes and unrealized foreign exchange changes.

(b) The cash received and paid included in the Company's operating and investing activities were as follows:

	Year Ended August 31, 2019	Year Ended August 31, 2018
Interest received	\$ 143	\$ 1,265
Interest paid	\$ 7,850	\$ 5,883
Income taxes paid	\$ 4,046	\$ 129

(c) The changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes were as follows. Secured loans included credit facility (Note 13).

	Secured loans	Convertible debt	Finance leases	Total
Balances at August 31, 2018	\$ 114,024	925	655	115,604
Cash flows, comprised of:	(3,905)	8,395	(178)	4,312
Repayments of principal	(66,405)	(247)		(66,652)
New advances secured loans	62,500	-	-	62,500
New advances convertible debt	-	8,642	-	8,642
Finance lease liability payments	-	-	(178)	(178)
<u>Liability related items:</u>				
Finance fees paid	(2,221)	(296)	-	(2,517)
<u>Non-cash related items:</u>				
Debt assumed on purchase (Note 7)	27,000	-	-	27,000
Interest reserve	(1,000)	-	-	(1,000)
Finance lease additions	-	-	6	6
Finance cost accretion	1,244	124	-	1,368
Derivative fair value changes	-	(475)	-	(475)
Other	-	(147)	-	(147)
	<hr/>	<hr/>	<hr/>	<hr/>
Balances at August 31, 2019	\$ 135,142	8,526	483	144,151

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 26 – SUPPLEMENTAL CASH FLOW INFORMATION (cont'd)Financing cash flows (cont'd)

	Secured loans	Convertible debt	Finance leases	Total
Balances at August 31, 2017	\$ 57,648	\$ 1,177	\$ 779	\$ 59,604
Cash flows, comprised of:	34,432	(247)	(207)	33,978
Repayments of principal	(42,375)	(247)	-	(42,622)
New advances	76,807	-	-	76,807
Finance lease liability payments	-	-	(207)	(207)
<u>Liability related items:</u>				
Finance fees paid	(1,251)	-	-	(1,251)
<u>Non-cash related items:</u>				
Secured loans assumed (Note 6)	22,500	-	-	22,500
Finance lease additions	-	-	140	140
Finance lease disposals	-	-	(57)	(57)
Conversion of convertible debt	-	(5)	-	(5)
Finance cost accretion	1,040	-	-	1,040
Other	(345)	-	-	(345)
Balances at August 31, 2018	\$ 114,024	925	655	115,604

NOTE 27 – EVENTS AFTER THE REPORTING PERIOD**(a) Treasury Shares**

Subsequent to August 31, 2019, the Company repurchased 646,500 common shares, resulting in 1,991,500 treasury shares held for cancellation. See Note 14(b).

(b) New financing

In November 2019, GEC LP 6 obtained a first mortgage for a total of \$15,000 which matures on December 1, 2020 and bears interest at a rate of 7.0% per annum compounded monthly subject to escalation clauses until the loan is repaid. Monthly payments are interest only. The borrower has two rights to extend the maturity date of the loan by six months each subject to certain provisions, including payment of extension fees. The loan is eligible for full prepayment before March 1, 2020, subject to a prepayment fee. The loan is secured by a first mortgage over the assets of GEC Project 6, and is guaranteed by the Company and two of its subsidiaries. Lender and third-party costs were incurred in securing the loan. The previous loan was repaid on the same date.

(c) Potential sale of owner-occupied property

In November 2019, the Company entered into an agreement to sell the property held by GEC LP 8. 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.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if otherwise noted (see also Note 4(a)).

A. Basis of Consolidation

i. Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries as at August 31, 2019. Control exists over an investee when the Company is exposed, or has rights, to variable returns from its investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Unless otherwise stated, the subsidiaries have share capital consisting solely of ordinary shares and the proportion of ownership interests held equals the voting rights held by the entity. The country of incorporation or registration is also their principal place of business.

Subsidiaries

The Company's principal subsidiaries include: Sprott Shaw College Corp.; Sprott Shaw Language College Inc.; Vancouver International College (2016) Limited Partnership; CIBT School of Business & Technology Corp.; IRIX Design Group Inc. ("IRIX"); Global Education City Holdings Inc.; GEC Master 1 Limited Partnership ("Master 1"); GEC Master 2 Limited Partnership ("Master 2") and GEC Management Limited Partnership. All subsidiaries were formed under the laws of British Columbia, Canada and their principal place of business is Canada with the exception of CIBT School of Business & Technology Corp., which operates in China. The Company directly and indirectly owns 100% of all subsidiaries with the exception of IRIX which is 51% owned. Master 1 and Master 2 own limited partnership units in the real estate projects controlled by the Company. The percentage of ownership of the Company in each of these real estate limited partnerships and the corresponding non-controlling interest ownership is presented in Note 16(a).

All intercompany transactions, balances, revenues and expenses have been eliminated on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Company. The Company attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

ii. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Certain acquisition related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

ii. Business combinations (cont'd)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment during the remeasurement period, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which is limited to one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

iii. Investments in associates

Associates are those entities over which the Company is able to exert significant influence but which it does not control, and which are not interests in a joint venture. Control is reassessed on an ongoing basis. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Acquired investments in associates are also subject to the acquisition method; however, any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investments in associates.

All subsequent changes to the Company's share of interest in the equity of the associate are recognized in the carrying amount of the investment. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities. Changes resulting from earnings of the associate or items recognized directly in the associate's equity are recognized in earnings or equity of the Company, as applicable. However, when the Company's share of losses in an associate equal or exceeds its interest in the associate, including any unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

iii. Investments in associates (cont'd)

If the associate subsequently reports earnings, the Company resumes recognizing its share of those earnings only after its share of the earnings exceeds the accumulated share of losses that had previously not been recognized. When changes in ownership interests are disproportionate to cumulative contributions, distributions and income (loss) allocations, the carrying value of the Company's interest in the equity of the associate is adjusted through a direct charge to equity.

Unrealized gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a Company perspective. At each reporting period end date, the Company assesses whether there are any indicators of impairment in its investment in associates. For entities which are not publicly traded, value-in-use of the investment is determined by estimating the Company's share of the present value of the estimated cash flow's expected to be generated by the investee. If impaired, the carrying value of the Company's investment is written down to its estimated recoverable amount, being the higher of fair value less cost of disposal and value-in-use.

In the process of measuring future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's investments in associates in the subsequent financial years.

iv. Joint operations

A joint arrangement is an arrangement of which two or more parties have joint control. The Company determines the type of joint arrangement in which it is involved either was a joint operation or a joint venture and this depends upon the rights and obligations of the parties to the joint arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement on a proportionate basis. Those parties are called joint operators. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. None of the parties involved have unilateral control of a joint venture. The Company accounts for its interests' joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

v. Non-controlling interests

Non-controlling interests exist in less than wholly-owned subsidiaries and divisions of the Company and represent the outside interests' share in the carrying values and operations of the subsidiaries and divisions. The interests of the non-controlling shareholders are initially measured at either fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. Any subsequent income/loss, dividends and foreign translation adjustments attributable to the non-controlling interests is recognized as part of the non-controlling interests' income or equity. When changes in ownership interests are disproportionate to cumulative contributions, distributions and income (loss) allocations, non-controlling interest are adjusted through direct charges to equity.

B. Foreign currency

Functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the Company is Canadian dollars with the exception of the Company's subsidiaries in China, which has a functional currency of RMB. These consolidated financial statements are presented in thousands of Canadian dollars as noted.

In preparing the financial statements of each individual subsidiary, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the dates those fair values are determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Foreign currency (cont'd)

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

C. Revenue recognition

The Company adopted IFRS 15 as at September 1, 2018 as further described in Note 4(a) *Revenue recognition*, including the significant differences from the previous standard. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer. The following are the principal activities from which the Company generates its revenue and information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Educational programs and services

The educational programs and services consist of tuition fee (net of discounts) on course offerings by CIBT, SSCC and SSLC/VIC. Customers (students) obtain control and revenue is recognized proportionately as instruction is delivered. Tuition is paid in advance of delivery of instruction. The Company records deferred revenue when payment is received, recognizes revenue for educational programs proportionately as instruction is delivered over the length of the contracts, and records refunds only when given. Revenue is reported net of scholarships, business taxes and related surcharges. Students are entitled to a short-term course trial period which commences on the date the course begins. Partial tuition refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, no refunds will be provided, and any collected but unearned portion of the fee is recognized at that time.

Revenue sharing arrangement with education service providers

One of the Company's subsidiaries, CIBT China, has entered into numerous educational delivery agreements with various educational service providers whereby a portion of the tuition fees, net of discounts, are paid to these educational service providers for the provision of facilities and/or teaching staff. For the majority of these revenue sharing arrangements, CIBT China is considered the primary obligor and accordingly records the tuition fee revenues on a gross basis and the portion paid to the educational service providers is included in direct educational costs.

Design and advertising

Customers obtain control when the Company completes its performance obligation which varies depending on the nature of the contracts but which are considered to be satisfied over a period of time. Revenue is recognized over the duration of the contract reflecting the transfer of control of the promised good or service to the customer, calculated based on the ratio of the Company's efforts or inputs at the reporting date relative to the total number of inputs required to satisfy the performance obligations.

Commissions and referral fees

CIBT has agreements with various private schools in North America to recruit students from overseas (primarily in China) for the primary and secondary private school sector in North America. CIBT is paid commissions and referral fees by the private schools for recruiting students that are accepted into and start the school's programs in North America. Commissions and referral fees are paid to CIBT only when the student can no longer obtain a refund on tuition fees paid to the private school. Commissions and referral fees are recognized as revenue by CIBT when the services to recruit students have been provided and when there is substantial certainty that the recruited students will attend the private school.

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. Revenue recognition (cont'd)

Development fee revenues

The Company earns fees in connection with certain real estate development activities. As described in Note 16, the Company holds units in various real estate focused limited partnerships. Limited partnership agreements specific that when third-party investors obtain an interest and become limited partners in these limited partnerships, that the Company receives consideration from these third-party investors for services performed. Revenue is recognized at a point in time when specified third-party investments are made. Development fee revenues is categorized as other revenue and is disclosed separately in Note 29.

Rental revenues

Rental revenues include rents from commercial tenants and residential accommodations. Rental revenues earned under lease arrangements include both lease components accounted for under IAS 17 and non-lease components accounted for under IFRS 15 (Note 29). Lease components include the lease for the rental unit including furnishing. Non-lease components include utilities, internet, housekeeping and common area maintenance, and have been determined to be non-distinct performance obligations from each other as the customer cannot benefit from them separately. Customers obtain control of the lease and non-lease components concurrently and revenue is recognized systematically over the term of the contract. For short term tenants such as the Company's hotel property, revenues are recognized in accordance with IFRS 15. Performance obligations for the short-term rental of the hotel units are generally satisfied on a nightly basis, and revenue is recognized based on consideration in the contract.

D. Financial Instruments

i. Recognition and initial measurement

On initial recognition, all financial assets and liabilities are classified and recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as at fair value through profit or loss ("FVTPL").

Cash and cash equivalents

Cash is held in bank accounts. The Company considers only those investments that are highly liquid, readily convertible to cash with original maturities of three months or less at date of purchase as cash equivalents.

Restricted cash

Restricted cash represents Canadian dollar bank deposits as collateral for the credit cards used in business operations, and Chinese RMB deposits at governmental accounts as security to conduct business in China.

ii. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income; or fair value through profit or loss, depending on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

D. Financial Instruments (cont'd)

ii. Classification and subsequent measurement (cont'd)

Financial assets (cont'd)

Financial assets that do not meet the above classifications are classified as fair value through profit or loss.

Financial Liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in net income (loss).

When a financial liability is non-substantially modified, a gain or loss is recognized into net income (loss). The gain or loss is calculated at the date of modification as the difference between the remaining original contractual cash flows and the modified cash flows both discounted at the original effective interest rate. Any costs associated with the modified loan is added to the loan carrying amount and amortized over the remaining modified loan term. The carrying amount of the loan is revised to reflect the new cash outflows at the date of modification.

iii. Derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or the Company transfers the rights to receive the contractual cash flow in a transaction in which substantially all the risks and rewards of ownership have been transferred.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in net income (loss).

iv. Impairment of non-derivative financial assets

IFRS 9 applies an expected credit loss (“ECL”) impairment model, which applies to financial assets measured at amortized cost, financial assets mandatorily measured at fair value through other comprehensive income (“FVTOCI”), contract assets, lease receivables, loan commitments, and financial guarantee contracts. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. The ECL model requires the recognition of credit losses based on 12 months of expected losses for financial assets and the recognition of lifetime expected losses on financial assets that have experienced a significant increase in credit risk since origination or which are considered credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

ECL’s are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls representing the difference between the cash flows due to the entity in accordance with the contract and the cash flow an entity expects to receive. The Company has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECL’s.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company's historical experience and including forward looking information.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

D. Financial Instruments (cont'd)

Presentation of allowance of ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a portion or the full amount. The Company makes an assessment of timing of write-off based on whether there is a reasonable expectation of recovery.

E. Investment properties

i. Recognition and measurement

A property is determined to be an investment property when it is held either to earn rental income or for capital appreciation, rather than for the use in the production of supply for services or for administrative purposes for sale in the ordinary course of business. 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, investment properties are measured at fair value. Gains and losses arising from changes in fair value of investment properties are including in profit or loss in the period in which they arise. Fair value is determined based on available market evidence at each reporting date. Subsequent capital expenditures are added to the carrying value of the investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value at the date of change in use and reclassified accordingly. Any gain arising on this remeasurement is recognized in profit or loss to the extent that reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in the revaluation reserve. Any loss is recognized immediately.

ii. Borrowing costs

Borrowing costs directly attributable to the acquisition and redevelopment of Investment Properties are added to the costs of the related Investment Properties until such time as the redevelopment of the Investment properties is substantially completed. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

iii. Assets held for sale

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale when: (a) assets are available for immediate sale; management has committed to a plan to sell; it is unlikely that significant changes in the plan will be made or that the plan will be withdrawn; an active program to locate a buyer has been initiated; the asset or disposal group is being marketed at a reasonable price in relation to its value; and the sales expected to complete within 12 months from the date of the classification. Such assets are generally measured at the lower of carrying amount and fair value less costs to sell. In the case of investment properties, IFRS requires that these properties continue to be accounted for under the fair value model.

Once classified as held for sale, intangible assets and property, plant and equipment, is no longer amortized or depreciated.

Discontinued operations are a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively for the view to resale, that has been disposed of or has met the criteria to be classified as held for sale. Discontinued operations are presented in the Consolidated Statements of Comprehensive Income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognized on the re measurement to fair value less cost to sell or on disposal of the asset consisting discontinued operations.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

F. Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price and any costs directly attributable to bringing the asset into working condition for its intended purpose. Depreciation is calculated to write off the cost of property and equipment less their estimated residual values over the estimated useful lives of assets as follows. Land is not depreciated.

- Building – straight line over fifty years;
- Leasehold improvements – straight-line over the lesser of five years and remaining lease term;
- Furniture and equipment – 20% to 30% declining balance or straight line;
- Equipment under finance leases – straight line over lease term.

Depreciation commences on the date the asset is available for use and capable of operating in the manner intended by management. Depreciation methods, useful lives and residual values are reviewed annually and any change in estimate is taken into account in the determination of remaining depreciation charges.

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Statements of Comprehensive Income in the period in which the item is derecognized.

G. Intangible assets and goodwill

Intangible Assets

The Company's finite life and indefinite life intangible assets are recorded at their cost which, for intangible assets acquired in business combinations, represents the acquisition date fair value. Subsequent expenditure is capitalized only when it increases the future economic benefits of the specific assets to which it relates.

Indefinite life intangible assets include accreditations and registrations, brand and trade names, and Chinese university partnership contracts. The Company considers such assets to represent an ongoing benefit to the Company through an indefinite period of control of such assets and expected usage. Such intangible assets are not subject to amortization and are tested for impairment annually or where an indication of impairment exists as described under *Impairment of intangible assets and property and equipment* below.

Finite life intangible assets, which include curriculum, foreign cooperative agreements, and agency fees, are carried at cost less accumulated amortization and impairment losses.

The Company capitalizes direct costs incurred in developing programs and curriculums for new courses as intangible assets with finite life. These costs are amortized to direct educational cost on a straight-line basis over the expected life of the course (ranging from 10 to 15 years) upon commencement of the new courses. Costs relating to the ongoing development and maintenance of existing courses are expensed as incurred.

For language programs in SSSC, SSLC and VIC, the Company engages a network of agents in foreign countries, who recruit and/or provide ongoing services to international students to attend the Company's programs in Canada. Agency fees attributable to each student, are deferred as intangible assets and recognized proportionately over the period in which the student receives instruction to match with the tuition fee revenues, which is generally 1 year or less.

Foreign cooperative agreements are amortized over 15 years on a straight-line basis, being their estimated useful lives. The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable as described under *Impairment of intangible assets and property and equipment* below.

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Intangible assets and goodwill (cont'd)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the cash generating unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods. Management evaluates goodwill for impairment annually as of August 31st. On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

H. Impairment of intangible assets and property and equipment

The carrying amount of property and equipment and intangible assets with a finite life are reviewed each reporting period to determine whether events or changes in circumstances indicate that their carrying amounts may not be recoverable. Intangible assets with an infinite life are reviewed and tested on an annual basis or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs of disposal or its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

I. Leases

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized at the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of lease expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

J. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within financing costs.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

K. Inventory

Inventories, which are comprised primarily of textbooks and other education materials, are valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

L. Share related items

i. Treasury Shares

The Company from time to time acquires its own common shares into treasury. The carrying amount of these reacquired shares is recorded as a separate component of shareholders' equity. If any of these shares are resold, the resulting gains are recorded as reserves in equity and resulting losses are applied first against prior reserves, if any, and secondly to retained earnings (deficit). When treasury shares are cancelled, the cost of the shares is charged first to the prior reserve gains, if any, and secondly to retained earnings (deficit).

ii. Share-based payments

The Company grants stock options to certain directors and employees to acquire shares in the common stock of the Company in accordance with the terms of the Company's stock option plan. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured for each tranche at grant date and is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted, and management's estimate of forfeitures and expected volatility based on historical volatility. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

iii. Earnings per share

Basic earnings per share figures have been calculated by dividing net income (loss) attributable to common shareholders by the weighted monthly average number of shares outstanding during the respective reporting periods. The Company follows the treasury stock method for determining diluted earnings per share. This method assumes that proceeds received from in-the-money stock options and share purchase warrants are used to repurchase common shares at the average prevailing market rate during the reporting period. The potentially issuable dilutive shares are ranked based on dilution.

Anti-dilutive stock options and share purchase warrants are not considered in computing diluted earnings per share. Treasury shares are excluded from the calculation of earnings per share.

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
All amounts in thousands of Canadian Dollars except share and per share amounts
August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

L. Share related items

iv. Reserves

The Company has the following reserves included within shareholders' equity.

- Warrant reserve. The reserve for warrants represents the amount recorded on issuance of share purchase warrants less the corresponding amounts charged to Share Capital on exercise of the underlying share purchase warrants.
- Share-based payments reserve. The reserve for share-based compensation calculation on stock option issuances less the corresponding amounts charged to Share Capital on exercise of the underlying stock options.
- Ownership changes reserve. The reserve is comprised of amounts resulting from comprises of the changes in ownership and other transactions associated with the Company less than 100% interest in real estate limited partnerships.
- Treasury shares reserve. The reserve comprises the cost of the Company's shares currently held by the Company. The cost of the Company's shares previously held is charged to Share Capital upon cancellation and return to treasury.
- Convertible notes reserve. The reserve for convertible notes comprises the amount allocated to the equity component for the convertible notes issued by the Company in May 2019. See M below.

M. Compound Financial Instruments

Compound financial instruments issued by the Company comprise a convertible note denominated in Canadian Dollars that can be converted into common shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value or currency.

The liability component of compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion at maturity the financial liabilities reclassified to equity and no gain or loss is recognised.

N. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in principal or, in its absence, the most advantageous market to which the group has access at that date. A number of the company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Company uses the fair value hierarchy to classify the significance of inputs to valuation techniques used in making fair value measurements of financial assets and liabilities. The categories are:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 inputs are not based on unobservable market data.

When one is available the group measures the fair value of the instrument using the quoted price in an active market for that instrument (Level 1). A market is regarded as active if transactions for the asset or a liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

N. Fair value measurement (cont'd)

If there is no quoted price in an active market then the group uses valuation techniques that maximise the use of relevant observable inputs and minimised the use of unobservable inputs (Level 2 or Level 3). The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing and transaction.

O. Income taxes

Income tax expense represents current tax and deferred tax. The Company records current tax based on the taxable profits for the period which is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred income taxes are accounted for using the liability method. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws in effect when the differences are expected to reverse. The effect of a change in tax rates or tax legislation is recognized in the period of substantive enactment. Deferred tax assets, such as unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset or liability on the statement of financial position, are recognized to the extent it is probable that taxable profit will be available against which the asset can be utilized.

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 29 – SEGMENTED INFORMATION

The Company's primary industry and geographic segments are in China where CIBT operates technical and career training schools, and in Canada where SSCC operates technical and career training schools, where SSLC and VIC operates English language schools, IRIX conducts web design and advertising services, and GECH conducts education related real estate projects. The Company's corporate operations are also in Canada. Transactions between CIBT, SSCC, SSLC / VIC, IRIX, GECH and the Company (Corporate) are reported as inter-segment transactions and are eliminated on consolidation. Information reported to the Company's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance focuses on the Company's business segments by geographic segments.

Industry and Geographic Segments	Year ended August 31, 2019						
	CIBT China	SSCC (Canada)	SSLC/VIC (Canada)	IRIX (Canada)	GECH (Canada)	Corporate (Canada)	Total
Revenues							
Revenues from contracts with customers							
Educational	\$ 2,763	\$ 35,433	\$ 13,865	\$ -	\$ -	\$ -	\$ 52,061
Design and advertising	-	-	-	862	-	-	862
Commissions and referral fees	692	-	-	-	-	-	692
Rental	-	-	-	-	7,359	-	7,359
	3,455	35,433	13,865	862	7,359	-	60,974
Revenues from leases	-	-	-	-	5,676	-	5,676
Revenues from development fees	-	-	-	-	-	4,347	4,347
	\$ 3,455	\$ 35,433	\$ 13,865	\$ 862	\$ 13,035	\$ 4,347	\$ 70,997
Revenues, net of direct costs	\$ 1,433	\$ 22,127	\$ 5,752	\$ 670	\$ 5,945	\$ 4,347	\$ 40,274
Other (income) expenses:							
General and administrative	(1,413)	(17,398)	(5,904)	(727)	(3,140)	(5,448)	(34,030)
Amortization	(69)	(1,015)	(250)	(12)	(866)	(3)	(2,215)
Share-based payment expense	-	-	-	-	-	(251)	(251)
Interest and other income	104	23	23	13	457	-	620
Foreign exchange gain (loss)	(20)	-	-	12	-	(92)	(100)
Interest expense	-	(141)	-	-	(5,534)	(246)	(5,921)
Finance fees expense and other	-	-	-	-	(976)	303	(673)
Indefinite lived intangibles and goodwill impairment	-	(79)	(1,603)	-	-	-	(1,682)
Gain on fair value changes in investment properties	-	-	-	-	20,116	-	20,116
Loss on disposal of assets	-	(51)	-	-	-	-	(51)
Income tax recovery (provision), net	(68)	(851)	(190)	(12)	(2,412)	2,378	(1,155)
Inter-segment transactions	269	(695)	3,209	60	(113)	(2,730)	-
Net income (loss)	\$ 236	\$ 1,920	\$ 1,037	\$ 4	\$ 13,477	\$ (1,742)	\$ 14,932

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 29 – SEGMENTED INFORMATION (cont'd)

Industry and Geographic Segments	August 31, 2019						Consolidated
	CIBT (China)	SSCC (Canada)	SSLC / VIC (Canada)	IRIX (Canada)	GECH (Canada)	Corporate (Canada)	
Total assets	\$ 4,002	\$ 31,145	\$ 7,014	\$ 260	\$ 342,098	\$ 5,151	\$ 389,670
Property and equipment	\$ 88	\$ 2,695	\$ 295	\$ 40	\$ 58,286	\$ 12	\$ 61,416
Investment properties	\$ -	\$ -	\$ -	\$ -	\$ 201,450	\$ -	\$ 201,450
Intangible assets	\$ 594	\$ 7,153	\$ 914	\$ -	\$ -	\$ -	\$ 8,661
Goodwill	\$ -	\$ 5,218	\$ 3,538	\$ -	\$ -	\$ 300	\$ 9,056
Total liabilities	\$ 638	\$ 29,776	\$ 4,104	\$ 354	\$ 149,957	\$ 10,687	\$ 195,516
Non-controlling interests	\$ 31	\$ -	\$ -	\$ (165)	\$ 142,840	\$ -	\$ 142,706
Capital expenditures	\$ 13	\$ 619	\$ 80	\$ 1	\$ 503	\$ -	\$ 1,216

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 29 – SEGMENTED INFORMATION (cont'd)
Industry and Geographic Segments

	Year ended August 31, 2018							Total
	CIBT China	SSCC (Canada)	SSLC/VIC (Canada)	IRIX (Canada)	GECH (Canada)	Corporate (Canada)		
Revenues								
Educational	\$ 2,115	\$ 34,384	\$ 12,985	\$ -	\$ -	\$ -	\$ -	\$ 49,484
Design and advertising	-	-	-	1,097	-	-	-	1,097
Commissions and referral fees	904	-	-	-	-	-	-	904
Development fees	-	-	-	-	-	12,805	-	12,805
Rental	-	-	-	-	10,610	-	-	10,610
	3,019	\$ 34,384	\$ 12,985	\$ 1,097	\$ 10,610	\$ 12,805	\$ -	\$ 74,900
Revenues, net of direct costs	\$ 1,230	\$ 21,299	\$ 4,473	\$ 847	\$ 5,339	\$ 12,805	\$ -	\$ 45,993
Other income (expenses):								
General and administrative	(1,034)	(16,372)	(6,657)	(854)	(2,064)	(5,413)	-	(32,394)
Amortization	(94)	(995)	(288)	(11)	(419)	(4)	-	(1,811)
Share-based payment	-	-	-	-	-	(262)	-	(263)
Interest and other income	102	-	183	4	1,782	-	-	2,071
Foreign exchange gain (loss)	3	-	-	19	-	(6)	-	16
Interest expense	-	(158)	-	-	(4,396)	(42)	-	(4,596)
Finance fees expense and other	-	-	-	-	(1,040)	-	-	(1,040)
Loss from investment in associates	-	-	-	-	(670)	-	-	(670)
Business acquisition costs	-	-	-	-	(85)	-	-	(85)
Indefinite lived intangibles write-down	-	(134)	(526)	-	-	-	-	(660)
Gain on fair value changes in investment properties	-	-	-	-	43,497	-	-	43,497
Gain (loss) on disposal of assets	-	(8)	-	-	2,304	-	-	2,296
Income tax recovery (provision), net	(128)	(843)	898	(17)	(3,822)	(3,070)	-	(6,983)
Inter-segment transactions	291	(748)	5	46	167	239	-	-
Net income (loss)	\$ 370	\$ 2,041	\$ (1,912)	\$ 34	\$ 40,592	\$ 4,246	\$ -	\$ 45,371

CIBT EDUCATION GROUP INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

All amounts in thousands of Canadian Dollars except share and per share amounts

August 31, 2019

NOTE 29 – SEGMENTED INFORMATION (cont'd)**Industry and Geographic Segments**

	August 31, 2018						Total
	CIBT China	SSCC (Canada)	SSLC / VIC (Canada)	IRIX (Canada)	GECH (Canada)	Corporate (Canada)	
Total assets	\$ 3,979	\$ 33,258	\$ 8,751	\$ 266	\$ 291,366	\$ 3,215	\$ 340,835
Property and equipment	\$ 122	\$ 3,013	\$ 428	\$ 51	\$ 58,649	\$ 15	\$ 62,278
Investment properties	\$ -	\$ -	\$ -	\$ -	\$ 144,670	\$ -	\$ 144,670
Intangible assets	\$ 613	\$ 7,579	\$ 1,265	\$ -	\$ -	\$ -	\$ 9,457
Goodwill	\$ -	\$ 5,218	\$ 4,838	\$ -	\$ 300	\$ -	\$ 10,356
Total liabilities	\$ 846	\$ 30,254	\$ 3,473	\$ 346	\$ 127,186	\$ 7,079	\$ 169,184
Non-controlling interests	\$ 36	\$ -	\$ -	\$ (167)	\$ 122,342	\$ -	\$ 122,211
Capital expenditures	\$ 8	\$ 1,194	\$ 93	\$ 35	\$ 1,208	\$ -	\$ 2,538

--- END OF FINANCIAL STATEMENTS ---