



CIBT EDUCATION GROUP INC.

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

FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2019

CIBT EDUCATION GROUP INC.
(the “Company”)
MANAGEMENT’S DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2019

The following Management’s Discussion & Analysis (“**MD&A**”) is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the consolidated financial statements and related notes for the three and nine months ended May 31, 2019 (the “**Q3 2019 Financial Statements**”) which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). The comparatives in this MD&A have been presented in accordance with IFRS. Additional information about the Company and its subsidiaries, including its annual information form, is available under the Company’s profile on SEDAR (www.sedar.com).

FORWARD-LOOKING INFORMATION

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

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

1. rental space available is expected to increase while occupancy remains virtually full: the underlying material factors or assumptions are that students from the Company’s own education subsidiaries and its partner schools will provide a steady supply of students into its student housing projects; that GEC[®] branded housing projects will remain the preferred choice for incoming students; and that the Company’s plans for the proposed GEC[®] real estate projects to accommodate 10,000 students over a five year period will be achieved;
2. the development permit for GEC[®] King Edward II has been filed and approval is expected in August 2019; the underlying material factor or assumption is that the City of Vancouver will issue the applicable permits on the submitted development plan and according to the estimated timeline;
3. the rezoning process for GEC Education Mega Center[®] is expected to be completed in late 2019 to early 2020: the underlying material factor or assumption is that professional reports will be issued on time according to the plan for the rezoning process and the City of Surrey will approve a revised design of a slightly smaller building;
4. the closing of the purchase of the land for GEC[®] Oakridge is now expected to be late 2019: the underlying material assumption being the satisfactory completion of due diligence reviews and the removal or satisfaction of other closing conditions and the completion of the conditional subscription of units into the operating limited partnership;
5. development fees are expected to be a recurring source of revenues: the underlying material assumption being that the Company’s student housing investment business continues to expand;
6. the development for GEC[®] Kingsway is expected to be completed in late 2022: the underlying material assumption being the City of Vancouver will approve the rezoning application, and the development will be completed, within the expected timelines;
7. the Company anticipates capital financing could be raised if required: the underlying assumption is that financing, when needed, will be available on terms determined acceptable by the Company; and
8. the Company’s plans for the proposed GEC[®] real estate projects: the underlying material factors or assumptions are that sufficient equity financing is raised from investment partners and that the applicable limited partnerships are able to secure loans to enable the purchase and development of the projects; that the relevant municipalities are receptive to the proposed building plans; that these projects can be built for a price determined reasonable by the Company and its investment partners; and that these projects can be completed in a reasonable amount of time as determined by the Company and the developer.

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

Reference should also be made to the risks described herein under the heading “Risks Related to the Company’s Business” for a discussion of these and other sources of factors underlying forward-looking statements and those additional risks set forth under the heading “Risk Factors” in the Company’s annual information form for the financial year ended August 31, 2018.

All figures are in Canadian dollars unless otherwise noted. This MD&A has been prepared as of July 14, 2019. In this MD&A, the following terms have the meanings shown:

“**Annual Financial Statements**” means the Company’s consolidated financial statements for Fiscal 2018.

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

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

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

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

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

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

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

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

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

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

NON-IFRS FINANCIAL MEASUREMENTS

The Company has included certain non-IFRS performance measures throughout this document including: (a) Earnings before Interest, Taxes, Depreciation and Amortization (“**EBITDA**”); and (b) Adjusted EBITDA which is EBITDA adjusted for the gain (loss) on change in fair value of the Company’s investment properties. These non-IFRS financial measurements do not have any standardized meaning as prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Management uses EBITDA metrics to measure the profit trends of the business units and segments in the consolidated group since it eliminates the effects of financing decisions. Certain investors, analysts and others utilize these non-IFRS financial metrics in assessing the Company’s financial performance. These non-IFRS financial measurements have not been presented as an alternative to net income (loss) or any other financial measure of performance prescribed by IFRS. Reconciliation of the non-IFRS measures have been provided throughout this MD&A.

Date of Report – July 14, 2019

CIBT EDUCATION GROUP INC.
MANAGEMENT’S DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2019

NATURE OF BUSINESS

The Company is an education and student housing investment company focused on the global education market since 1994. The Company’s common shares are listed on the Toronto Stock Exchange (the “**TSX**”) under the trading symbol “**MBA**” and quoted on United States OTCQX-International under the trading symbol “**MBAIF**”. The Company owns and operates a network of business, technical and language colleges in North America and Asia. Its real estate arm is an investor in limited partnerships that own a network of serviced apartments and hotels, operated by a subsidiary of the Company acting as manager, that provide student housing in the Metro Vancouver area, British Columbia.

The Company’s operating entities are as follows:

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

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

THIRD QUARTER HIGHLIGHTS

2019 Convertible Debentures

In May 2019, the Company issued Hong Kong dollar (“**HKD**”) denominated and Canadian dollar denominated convertible debentures (the “**2019 Debentures**”) and received proceeds in the aggregate principal equivalent sum of \$8,642,190. The 2019 Debentures mature in May 2021, subject to the Company’s exercise of the prepayment option or extension option as provided in the 2019 Debentures. At any time between four months after issuance and before maturity, the debenture holder can elect to convert all or part of the then outstanding principal sum into common shares of the Company at the conversion price set at issuance. Interest payments will be made semi-annually at 8-9% per annum.

The capital from the 2019 Debentures may be used to increase the Company’s ownership percentage of existing real estate limited partnerships, for general working capital, and for expenses related to the proposed dual listing of the Company’s shares.

GEC® King Edward II (“Project 1”)

In October 2017, GEC® King Edward II limited partnership purchased the land for the future development of an investment property. Construction will be able to commence following receipt of City of Vancouver approval to the development plan which was submitted in July 2019.

GEC® Education Mega Center (“Project 7”)

In May 2017, GEC® LP 7 entered into a Purchase and Development Agreement (“LP 7 PDA”) with the developer to construct Project 7. The LP7 PDA was amended in June and July 2017 to extend the subject removal dates and ultimately an amended agreement was executed in April 2019 between the parties (the “Third Amendment”).

The Third Amendment modified certain business terms of the agreement and provided for a modified design of the building. Pursuant to the Third Amendment, LP 7 will purchase the land currently held by the developer for Project 7 and complete the property by contracting out the development and construction of the building. In addition, the Company will assume the debt currently held by the developer on closing of the purchase. During the three months ended May 31, 2019, an additional \$500,000 deposit was paid resulting in \$3,000,000 of refundable deposits for Project 7. The transaction is expected to close during the quarter ending August 31, 2019.

GEC® Education Mega Center (“Project 7”) (cont’d)

The contemplated building will be slightly shorter with proportionally reduced square footage than originally planned. By modifying the design, it is expected there will be a reduction in the overall construction cost from that originally anticipated and the Company anticipates meet the original budget of approximately \$275 million. The rezoning process is expected to be completed in late 2019 or early 2020.

GEC® Oakridge (“Project 10”)

The name of Project 10 was changed from **GEC® Langara** to **GEC® Oakridge** in January 2019.

In January 2019, a subsidiary of the Company entered into three separate purchase and sale agreements for the purchase of three adjoining parcels of land for a purchase price totaling \$30,300,000, on which the development of a high rise serviced investment property is planned. The agreements include a provision to assign the land to GEC® LP 10 on closing. The closing of the land purchases was expected by August 2019, subject first to certain conditions precedent that were expected to be satisfied or waived in the quarter ended May 31, 2019, at which time an additional \$1,500,000 of total deposits was to be made to the vendors, and second to other conditions on closing. In April 2019, the purchase and sale agreements were amended with the conditions removal date moved to June 28, 2019 and the purchase closing date moved to the quarter ending November 30, 2019. During June 2019, a second amendment to these agreements was executed extending the conditions removal date to July 31, 2019 with the purchase closing date remaining the same.

In addition, in June 2019 the Company entered into a purchase and sale agreements for the purchase of an adjacent piece of land on substantially the same terms as the other Project 10 purchase agreements and paid a refundable deposit of \$50,000.

In June 2019, the Company became aware of an US\$8 million (approximately \$10.7 million) conditional subscription for an investor who intends to invest in Project 10 via the Company’s investment limited partnership structure in the quarter ending August 31, 2019. The net proceeds after payment of the Company’s development fee be will invested in GEC® Oakridge if this subscription is completed.

GEC® Kingsway

In late June 2019, a wholly owned subsidiary of the Company signed a master lease with a Vancouver based real estate developer for residential rental property to be constructed in Metro Vancouver. The lease is for a term of 21 years at discounted market rental rates. The project will be named GEC® Kingsway. The Company intends to also assist in the design, space planning, construction and furnishing of the property. Post construction, the Company intends to recruit students to fill approximately 350 to 410 beds to be located at this site, implement marketing and reservation systems and provide all amenities that are consistent with other GEC® properties. The rezoning process for the GEC® Kingsway project is close to finalization and the possession date is expected to be in late 2022.

Investment Property Fair Value Gains

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

Applying the cost model would result in no recognition of increases in the fair value of the property until the property was sold and would also result in depreciation of the buildings and equipment over their useful lives. The Company's investment property is purchased to supply rental properties to students in Metro Vancouver attending the Company's own schools as well as students attending other educational institutions. Currently, over 96% of the rental property tenants are from schools not owned by the Company with the remaining tenants enrolled in courses delivered by the Company. The student housing arm of the business and the strategy is to hold buildings for between three to five years. Therefore, the Company in applying the fair value model presents a more accurate reflection of the value of these properties at the end of each reporting period versus waiting to recognize these gains until exit.

QUARTERLY FINANCIAL REVIEW

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

	Quarter Ended May 31, 2019 (Third Quarter) (\$)	Quarter Ended February 28, 2019 (Second Quarter) (\$)	Quarter Ended November 30, 2018 (First Quarter) (\$)	Quarter Ended August 31, 2018 (Fourth Quarter) (\$)
Total revenues – Continuing operations ⁽¹⁾	16,138,034	15,553,867	17,066,583	20,204,686
Net income	295,361	3,205,573	2,188,236	28,665,397
Net income (loss) - CIBT Education Group Inc. shareholders	1,031,848	(132,184)	1,179,398	8,112,885
Income (loss) per share - CIBT Education Group Inc. shareholders – basic and diluted	0.01	(0.00)	0.02	0.10

	Quarter Ended May 31, 2018 (Third Quarter) (\$) ⁽²⁾	Quarter Ended February 28, 2018 (Second Quarter) (\$) ⁽²⁾	Quarter Ended November 30, 2017 (First Quarter) (\$) ⁽²⁾	Quarter Ended August 31, 2017 (Fourth Quarter) (\$) ⁽²⁾
Total revenues – Continuing operations ⁽¹⁾	22,834,707	17,656,658	14,203,870	16,724,888
Net income (loss)	7,958,031	1,883,862	6,863,875	2,156,856
Net income (loss) - CIBT Education Group Inc. shareholders – basic and diluted	8,499,570	2,545,788	784,013	(643,234)
Income (loss) per share - CIBT Education Group Inc. shareholders – basic and diluted	0.11	0.03	0.01	(0.01)

⁽¹⁾ No discontinued operations in the quarterly information presented.

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

Total revenues from continuing operations are predominately driven by: (a) educational revenues; (b) rental revenues; (c) development fees; and (d) revenues from other lines of business.

Education revenues have increased since the acquisition of certain KGIC Inc. assets in March 2017. Education revenues generally increase in the month of September but overall revenues are not seasonal as programs run throughout the year.

Rental revenues generally increase as more units become available which occurs when new real estate projects are acquired or when the construction of a project is completed. In addition, rental rate increases across all properties generate more revenue. In March 2018, the GEC[®] Granville property, which was previously held by a limited partnership in which the Company held an interest, was purchased by a new limited partnership, GEC[®] LP 8. As of March 15, 2018, the Company controls GEC[®] LP 8 and all operations are consolidated.

QUARTERLY FINANCIAL REVIEW (cont'd)

In August 2018, the GEC[®] Viva investment property was sold to a third-party and a subsidiary of the Company leased the building back for continued use to support its student housing business. In August 2018, a limited partnership controlled by the Company purchased the GEC[®] Pearson property from the developer.

Development fee revenues were \$381,062 for the Third Quarter of Fiscal 2019, compared to \$8,019,562 for the Third Quarter of Fiscal 2018, the recognition of which depends on the timing of investment by third parties into real estate investment limited partnerships which is driven by the status and magnitude of the real estate projects portfolio. Development fees are expected to be a recurring source of revenues as the Company continues to expand its business. Projects such as Global Education City[®] (Richmond), GEC Education Mega Center[®] and GEC[®] Oakridge involve development and construction timelines spanning several years and require substantial investor subscriptions that are earned over several quarters.

Quarterly results also fluctuate due to the timing of recognition of fair value gains on investment properties, which depend on the operating performance, real estate market, and also the timing of purchase of a project. Each quarter, the value of the investment properties is assessed and may result in fair value changes which the Company expects to be in the form of fair market value gains. Annually, the Company engages external qualified appraisers to value the investment properties.

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

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

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REVIEW OF QUARTERLY FINANCIAL RESULTS

For the three months ended May 31, 2019 compared to May 31, 2018

The table below describes the financial performance of each main business unit of the Company, including revenues, revenues net of associated direct costs, and selected expenses for the Third Quarter of Fiscal 2019 compared to the Third Quarter of Fiscal 2018.

	Quarter Ended May 31, 2019	Quarter Ended May 31, 2018	Absolute Change	% Change
Total revenues	\$ 16,138,034	\$ 22,834,707	\$ (6,696,673)	-29%
Total revenues net of direct costs – Overall (%)	54%	72%	-18%	-25%
Educational revenues – SSCC	\$ 8,871,421	\$ 8,885,051	\$ (13,630)	0%
Educational revenues net of direct costs – SSCC (%)	61%	63%	-2%	-3%
Educational revenues – SSLC / VIC	\$ 2,731,612	\$ 2,263,440	\$ 468,172	21%
Educational revenues net of direct costs – SSLC / VIC (%)	40%	33%	7%	20%
Educational revenues – CIBT China	\$ 835,558	\$ 469,310	\$ 366,248	78%
Educational revenues net of direct costs – CIBT China (%)	38%	36%	3%	8%
Design and advertising revenues – IRIX	\$ 236,279	\$ 289,378	\$ (53,099)	-18%
Design and advertising revenues net of direct costs – IRIX (%)	82%	80%	2%	2%
Commissions and referral fees – GEA	\$ 145,573	\$ 199,921	\$ (54,348)	-27%
Commissions and referral fees net of direct costs – GEA (%)	57%	27%	30%	111%
Rental revenues – GECH	\$ 2,936,529	\$ 2,708,045	\$ 228,484	8%
Rental revenues net of direct costs - GECH (%)	40%	59%	-18%	-31%
Development fee revenues – GECH and Corporate	\$ 381,062	\$ 8,019,562	\$ (7,638,500)	-95%
Other operating expenses	\$ 8,408,635	\$ 8,612,956	\$ (204,321)	-2%
Finance costs and finance fee expenses	\$ 1,615,676	\$ 1,870,624	\$ (254,948)	-14%
Gain on change in fair value of investment properties	\$ 0	\$ 0	\$ 0	0%
Income (loss) before income taxes	\$ (737,629)	\$ 7,958,031	\$ (8,695,660)	-109%
Net income	\$ 295,361	\$ 7,958,031	\$ (7,662,670)	-96%
EBITDA [non-IFRS]	\$ 1,367,276	\$ 9,948,777	\$ (8,581,501)	-86%

Net income was \$295,361 for the Third Quarter of Fiscal 2019 compared to net income of \$7,958,031 for the Third Quarter of Fiscal 2018. The decrease in total revenues was mainly driven by a decrease in development fee revenues of \$7,638,500, offset by increases in educational revenues of \$820,790 and rental revenues of \$228,484. Direct costs increased by \$1,014,657 due to increases in costs associated with education and rental revenue streams. General and administrative expenses decreased by \$251,227 in the Third Quarter of Fiscal 2019 compared to the Third Quarter of Fiscal 2018. Income tax recovery was \$1,032,990 for the Third Quarter of Fiscal 2019 representing a reversal of a prior period tax provision in excess of actual taxes due compared to \$Nil for the Third Quarter of Fiscal 2018.

REVIEW OF QUARTERLY FINANCIAL RESULTS (cont'd)

Educational

Educational revenues predominately consist of tuition fees, sales of textbooks, supplies and related items, and other non-training services, which includes registration and administration fees. Deferred educational revenues at May 31, 2019 were \$27,712,701 (August 31, 2018 - \$23,572,827) which primarily represents revenues which will be recognized as programs are provided to students over the next two fiscal years. Education revenues fluctuate based on the mix of tuition charged to students for the various programs and additional deferred educational revenues earned in a period from increased student base in prior periods; level of textbook sales; and amount of non-training services provided. The education business continued to attract more students and increased its student base in the nine months ended May 31, 2019. Margins are impacted by the mix of services provided and the costs associated with those services.

Real Estate and Student Housing

- Rental revenues increased \$228,484 in the Third Quarter of Fiscal 2019 predominately as the result of new rental revenues from GEC[®] Pearson, which was under possession at the end of August 2018, and increased rental revenues for GEC[®] Viva associated with increased occupancy and overall as result of rental rate increases. Rental revenues for GEC[®] Pearson are expected to grow in future quarters as a mechanical issue in the building resulted in units not being fully leased out despite demand. The mechanical issue has been fully remediated under the builder's warranty and the Company has claimed for business interruption compensation. The Company expects the entire building to be fully leased by the end of the year.

Rental revenues will fluctuate based on rental space available and occupancy achieved, both of which are expected to increase as the Company grows the GEC[®] student housing portfolio and the number of beds available for rent increases. Margins on rental revenues increased as direct costs, while increased, decreased in relation to revenues as the Company continues to scale its investment properties. Direct costs increased associated with payments under a head lease to the new owner of GEC[®] Viva under the sale and leaseback transaction and also the addition of GEC[®] Pearson. Salaries associated with managing the property increased as a result of increase in property holdings.

- Development fee revenues are a result of the Company's efforts in identifying, securing, and structuring student centric serviced apartments as well as education center projects. The timing of recognition of development fees revenues are dependent on when qualified subscribers invest in the real estate investment limited partnership structure that the Company has developed, the timing of which depends on the individual project, with the majority of investments occurring at the beginning of the project. During the Third Quarter of Fiscal 2019, development fee revenues earned were associated with Global Education City[®] (Richmond). During the Third Quarter of Fiscal 2018, development fee revenues earned were associated with Global Education City[®] (Richmond) and GEC Education Mega Center[®]. All costs associated with earning development fees are included in general and administrative costs.
- Finance costs and finance fee expenses fluctuate based on changes in borrowings held. Interest expense increased by \$127,999 as the result of additional interest on borrowings associated with GEC[®] Granville and GEC[®] Pearson, offset by less interest on GEC[®] Viva and GEC[®] Burnaby due to sale activities in prior periods. Finance costs include the fair value gain on the 2019 Debentures resulting in most of the reduction of these costs in the Third Quarter of Fiscal 2019.

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

- General and administrative expenses decreased by \$251,227 from increased salaries and benefits, office and general expenses and credit loss allowances associated with the adoption of IFRS 9, offset by decreases in professional fees and advertising costs which fluctuate based on the Company's transaction activity.
- Amortization of property, equipment and intangible assets, which is a non-cash expense, increased over the comparable period due to additional purchases during the year.

REVIEW OF YEAR-TO-DATE FINANCIAL RESULTS

For the nine months ended May 31, 2019 compared to the nine months ended May 31, 2018

The table below describes the financial performance of each main business unit of the Company, including revenues, revenues net of associated direct costs, and selected expenses for the nine months ended May 31, 2019 compared to the nine months ended May 31, 2018.

	Nine Months Ended May 31,		Absolute Change	% Change
	2019	2018		
Total revenues	\$ 48,758,484	\$ 54,695,235	\$ (5,936,751)	-11%
Total revenues net of direct costs – Overall (%)	55%	62%	-7%	-11%
Educational revenues – SSCC	\$ 25,802,774	\$ 25,964,358	\$ (161,584)	-1%
Educational revenues net of direct costs – SSCC (%)	63%	61%	1%	2%
Educational revenues – SSLC / VIC	\$ 8,689,284	\$ 7,204,942	\$ 1,484,342	21%
Educational revenues net of direct costs – SSLC / VIC (%)	40%	32%	8%	25%
Educational revenues – CIBT China	\$ 2,321,362	\$ 1,791,567	\$ 529,795	30%
Educational revenues net of direct costs – CIBT China (%)	44%	48%	-4%	-9%
Design and advertising revenues – IRIX	\$ 697,008	\$ 839,779	\$ (142,771)	-17%
Design and advertising revenues net of direct costs – IRIX (%)	79%	75%	4%	5%
Commissions and referral fees – GEA	\$ 569,610	\$ 679,826	\$ (110,216)	-16%
Commissions and referral fees net of direct costs – GEA (%)	47%	25%	22%	87%
Rental revenues – GECH	\$ 8,525,684	\$ 6,552,381	\$ 1,973,303	30%
Rental revenues net of direct costs - GECH (%)	39%	39%	0%	0%
Development fee revenues – GECH and Corporate	\$ 2,152,762	\$ 11,662,382	\$ (9,509,620)	-82%
Other operating expenses	\$ 25,897,966	\$ 24,522,488	\$ 1,375,478	6%
Finance costs and finance fee expenses	\$ 4,929,500	\$ 3,687,962	\$ 1,241,538	34%
Gain on change in fair value of investment properties	\$ 8,100,000	\$ 8,634,612	\$ (534,612)	-6%
Income before income taxes	\$ 4,961,977	\$ 16,645,768	\$ (11,683,791)	-70%
Net income	\$ 5,689,170	\$ 16,645,768	\$ (10,956,598)	-66%
EBITDA [non-IFRS]	\$ 10,963,545	\$ 20,708,246	\$ (9,744,701)	-47%

Net income was \$5,689,170 for the nine months ended May 31, 2019 compared to net income of \$16,645,768 for the comparative period. The increase in revenues was mainly driven by increases in educational revenues of \$1,852,553, rental revenues of \$1,973,303, and offset by decreases in development fee revenues of \$9,509,620, design and advertising revenues of \$142,771, and commission and referral fees of \$110,216. Direct costs increased by \$1,204,298, which comprised increases in education and rental revenue costs offset by decreases in both IRIX and GEA costs resulting in improved margins. Gains on the change in fair value of investment properties were \$8,100,000 in the nine months ended May 31, 2019 compared to \$8,634,612 in the comparative period. General and administrative expenses increased by \$961,937 in the nine months ended May 31, 2019 over the comparative period. Income tax recovery was \$727,193 for the nine months ended May 31, 2019 representing a reversal of a prior period tax provision in excess of actual taxes due compared to \$Nil for the comparative period.

REVIEW OF YEAR-TO-DATE FINANCIAL RESULTS (cont'd)

Unless otherwise noted below the changes in the Company's results for the nine months ended May 31, 2019 were similar to the three months ended May 31, 2019 discussed above.

Educational

An increase in the number of students enrolled at SSLC/VIC during the nine months ended May 31, 2019 resulted in a 21% increase in revenues over the comparative period.

Real Estate and Student Housing

- Rental revenues increased \$1,973,303 in the nine months ended May 31, 2019 compared to the prior period predominately due to: increased rental revenues for the GEC[®] Viva property associated with increased available rental space and occupancy since renovations were completed in November 2017; and new rental income from the GEC[®] Pearson property which was under possession at the end of August 2018. Rental revenues for GEC[®] Pearson are expected to grow in future quarters. Margins on rental revenues remained constant as direct costs, while increased, decreased in relation to revenues as the Company continues to scale its investment properties. The margins were positively impacted by a change from equity accounting to consolidated accounting for GEC[®] Granville on March 15, 2018, which resulted in a reduction of direct costs of rental expense previously paid to a non-consolidated entity under a head lease which was included as direct costs until March 15, 2018 and thereafter eliminated on consolidation. This change will result in lower direct costs going forward associated with this property. The margins were positively impacted as previously explained in the Third Quarter of 2019 review section. Direct costs increased predominately from increased salaries and other costs associated with operating serviced apartments as the bed count increased, offset by lower rent expense explained previously.
- During the nine months ended May 31, 2019, development fee revenues earned were associated with Global Education City[®] (Richmond) and GEC[®] Oakridge. During the nine months ended May 31, 2018, development fee revenues earned were associated with Global Education City[®] (Richmond) and GEC Education Mega Center[®]. All costs associated with earning development fees revenues are included in general and administrative costs.

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

- General and administrative expenses increased \$961,937 during the nine months ended May 31, 2019 over the comparative period predominately from increased professional fees, consulting and management fees, office and general expenses, credit loss allowances associated with the adoption of IFRS 9, offset by decreases in advertising costs in advertising costs which fluctuate based on the Company's transaction activity, and rent.

FINANCIAL POSITION AND LIQUIDITY

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

	May 31, 2019	August 31, 2018	Dollar Change	Percentage Change
Cash and cash equivalents	\$ 23,253,585	\$ 33,246,248	\$ (9,992,663)	-30%
Trade and other receivables	\$ 14,813,513	\$ 18,327,693	\$ (3,514,180)	-19%
Total current assets	\$ 41,540,643	\$ 55,167,944	\$ (13,627,301)	-25%
Investment properties	\$ 154,485,672	\$ 144,670,000	\$ 9,815,672	7%
Property and equipment	\$ 61,532,872	\$ 62,277,524	\$ (744,652)	-1%
Other non-current assets	\$ 88,845,816	\$ 78,721,164	\$ 10,124,652	13%
Total assets	\$ 346,405,003	\$ 340,836,632	\$ 5,568,371	2%
Trades and other payables	\$ 14,858,693	\$ 16,596,566	\$ (1,737,873)	-10%
Deferred educational revenues	\$ 27,712,701	\$ 23,572,827	\$ 4,139,874	18%
Total current liabilities	\$ 105,523,396	\$ 73,792,013	\$ 31,731,383	43%
Working capital surplus (deficit) – see below	\$ (63,982,753)	\$ (18,624,069)	\$ (45,358,684)	244%
Total non-current liabilities	\$ 64,672,686	\$ 95,392,438	\$ (30,719,752)	-32%
Equity – CIBT Education Group Inc. shareholders	\$ 50,678,112	\$ 49,441,219	\$ 1,236,893	3%
Total equity	\$ 176,208,921	\$ 171,652,181	\$ 4,556,740	3%

Cash and cash equivalents decreased at May 31, 2019 as explained in the cash flow section below. The trade and other receivables balance at August 31, 2018 included \$5,415,177 of funds associated with the GEC[®] Burnaby Heights commercial unit sale which were received in September 2018 and used to repay a portion of the secured loans. Investment properties increases included \$8,100,000 of gains on changes in fair value of certain properties, \$1,280,877 of capitalized borrowing costs, and other development expenses. Other non-current assets increased predominately associated with refundable deposits paid on properties under development.

Total liabilities at May 31, 2019 increased by \$1,011,631 from August 31, 2018 due to: increases in deferred educational revenue of \$4,139,874 associated with increased student enrolment in September 2018 and increased non-current borrowings of \$8,114,743 associated with the 2019 Debentures issuance, offset by decreases of \$1,737,873 in total trade and other payables and \$4,176,838 in income taxes payable, decreases of \$6,185,585 in total secured loan borrowings mainly associated with reduction of debt held by GEC[®] Burnaby associated with buildings commercial units sale. Typical in the education sector, higher deferred (education) revenue represents higher enrollment volume and the increase in this balance reflects strong and consistent enrolment for the Company's educational business.

Negative working capital is predominately driven by the following. See section *Risk Management, Liquidity Risk* for further explanation.

- Borrowings that when classified as current do not match the non-current classification of the Company's real estate property interests included in investment properties and property and equipment. At the end of each quarter, secured loans are classified as current or non-current depending on their maturity, with the total amount of borrowings in each category fluctuating as a function of time or change in secured loans. The current portion of borrowings increased by \$33,506,220 at May 31, 2019 compared to August 31, 2018 as described below.
- In June 2019, GEC[®] King Edward II repaid an existing loan with a current balance at May 31, 2019 of approximately \$10.0 million and received new funding in the amount of \$8 million, which will be classified as non-current at August 31, 2019. An additional amount of funding under a second mortgage is expected to occur in the quarter ending August 31, 2019. In addition, the Company expects to in the quarter ending August 31, 2019, refinance the debt held by GEC[®] Granville having a current balance at May 31, 2019 of approximately \$39.8 million. These refinancing are expected to reduce the negative working capital amount by nearly \$50 million before August 31, 2019.

FINANCIAL POSITION AND LIQUIDITY (cont'd)

- Deferred educational revenues represents an obligation to provide services to students at future dates at which time revenues will be recognized. Some portion of this liability is not offset by amounts receivable from students.

Analysis of Cash Flows

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2019 (\$)	2018 (\$)	2019 (\$)	2018 (\$)
Cash flows provided by (used in) operating activities	(1,442,658)	8,656,154	(205,729)	19,507,075
Cash flows (used in) investing activities	(6,241,333)	(61,240,764)	(8,704,322)	(78,749,915)
Cash flows provided by (used in) financing activities	10,202,349	49,071,817	(1,117,083)	62,830,407
Effects of exchange rate changes on cash and cash equivalents	(16,516)	(1,578)	34,471	97,215
Increase (decrease) in cash and cash equivalents	2,501,842	(3,514,371)	(9,992,663)	3,684,782
Cash and cash equivalents, beginning of period	20,751,743	14,079,537	33,246,248	6,880,384
Cash and cash equivalents, end of period	23,253,585	10,565,166	23,253,585	10,565,166

During the Third Quarter of Fiscal 2019, the Company used \$1,442,658 in cash from operating activities after decreases in non-cash working capital items of \$2,015,139 compared the generation of \$8,656,154 in cash for the Third Quarter of Fiscal 2018 after increases in non-cash working capital items of \$1,808,763, due to lower operating income and a decrease in non-cash working capital. Net changes in working capital not including cash items in the Third Quarter of Fiscal 2019 resulted mainly from a use of cash associated with a decrease in income taxes payable of \$3,093,254 and a source of cash of \$1,387,592 associated with accounts payable and accrued liabilities.

During the nine months ended May 31, 2019, the Company used \$205,729 in cash from operating activities after decreases in non-cash working capital items of \$2,734,870 compared the generation of \$19,507,075 in cash for the nine months ended May 31, 2018 after increases in non-cash working capital items of \$9,563,799, due to lower operating income and a decrease in non-cash working capital. Net changes in non-cash working capital in the nine months ended May 31, 2019 resulted mainly from a use of cash associated with a decrease in income taxes payable of \$4,176,838 and an increase in accounts receivable offset by a source of cash from the increase in deferred educational revenues of \$4,139,874. Cash flows from operating activities can vary significantly from period to period as a result of the Company's working capital requirements associated with its real estate projects and timing of receipt of development fees.

Cash used in investing activities for the Third Quarter of Fiscal 2019 was associated mainly with \$5,500,000 refundable deposits paid under agreements for Global Education City[®] (Richmond) and GEC Education Mega Center[®] and property and equipment costs and/or development expenditures. Cash used in investing activities for the Third Quarter of Fiscal 2018 was associated mainly with \$44,000,000 refundable deposits paid to the developer of Global Education City[®] (Richmond) and the acquisition of a controlling interest in GEC[®] Granville of \$15,233,238, net of cash acquired.

Cash used in investing activities for the nine months ended May 31, 2019 was associated mainly with \$10,650,000 refundable deposits paid under agreements for Global Education City[®] (Richmond) and GEC[®] Oakridge, total paid of \$1,423,333 for the purchase of property and equipment and items associated with the investment properties, and the prepayment of agency fees of \$1,610,883. Agency fees are paid to the Company's network of agents who recruit and/or provide ongoing services to international students to attend the Company's programs in Canada and these fees are deferred as intangible assets and recognized proportionately to direct costs over the period of educational instruction. These uses of cash were offset by the receipt in September 2018 of \$5,415,177 of the proceeds on the sale of GEC[®] Burnaby commercial units. During the nine months ended May 31, 2018, the Company used cash to pay refundable deposits of \$47,000,000 to developers for Global Education City[®] (Richmond) and GEC Education Mega Center[®], acquire the GEC[®] King Edward II land (investment property) including payment of development fees, acquire a controlling interest in GEC[®] Granville, prepay agency fees of \$1,537,104, as described previously, and purchase additional furniture for rental properties.

FINANCIAL POSITION AND LIQUIDITY (cont'd)

Analysis of Cash Flows (cont'd)

Cash provided by financing activities for the Third Quarter of Fiscal 2019 was mainly the result of the issuance of the 2019 Debentures for proceeds of approximately \$8.6 million; \$3,270,122 of net non-controlling interest capital contributions mainly associated with Global Education City® (Richmond); offset by \$327,877 of capitalized interest costs and \$119,800 of cash paid to repurchase treasury shares. Note 17(c) of the Q3 2019 Financial Statements provides additional detail of the change in borrowings including cash and non-cash related items for the current and comparative periods.

Cash provided by financing activities for the Third Quarter of Fiscal 2018 was mainly the result of \$32,091,689 of net non-controlling interest capital contributions mainly associated with investments into the respective operating limited partnerships for GEC® Granville, GEC Education Mega Center® and Global Education City® (Richmond); \$19,000,000 of borrowings received for GEC® Granville offset by certain repayments on other borrowings; offset by increased deferred costs incurred associated with pending projects.

Cash used in financing activities for the nine months ended May 31, 2019 was mainly as the result of net non-controlling interest capital distributions mainly associated with distributions of \$9,357,320 to limited partners of GEC® Viva related to the August 2018 sale of the investment property previously held by that entity, offset by contributions of \$8,374,653 from mainly Global Education City® (Richmond); net cash inflows of \$2,223,294 associated with borrowings which is mainly comprised of the repayment of secured loans of \$15,279,000 previous held by GEC® Burnaby offset by new funding of \$10,000,000 for the same entity plus the 2019 Debentures issuance proceeds; interest charges capitalized of \$1,280,877; advances from related parties and the repurchase of common shares. Cash provided by financing activities for the nine months ended May 31, 2018 was mainly the result of \$46,820,729 of net non-controlling interest capital contributions from GEC® Granville and GEC Education Mega Center®, offset by \$12,055,096 in advances the Company made to related parties most of which was associated with advances to GEC® LP 4 to extinguish existing debt held by GEC® LP 4 in advance of the Granville business combination and an increased deferred costs associated with pending projects.

Outstanding Share Data

The authorized capital of the Company consists of 150,000,000 common shares without par value. As at July 14, 2019, the following common shares, stock options, and convertible debenture conversion options were outstanding:

	Number of shares	Exercise Price	Remaining Life (Years)
Common shares	76,532,540	-	-
Stock options	2,645,000	\$0.37 - \$0.86	2.02 - 4.49
2017 convertible debentures	911,451	\$0.79	2.90
2019 convertible debentures	10,407,750	\$0.78 - \$0.84 ⁽¹⁾	1.88
Fully diluted	90,496,741		

(1) Exercise prices denominated in HKD converted into Canadian dollars.

Treasury Shares

In December 2018, the Company received approval from the Toronto Stock Exchange to commence a normal course issuer bid ("NCIB"), whereby the Company may purchase up to 2,000,000 of the Company's common shares, subject to daily limits, anytime during the period beginning on December 14, 2018 and ending no later than December 13, 2019, to a maximum aggregate acquisition cost of \$2,000,000. During the nine months ended May 31, 2019, the Company repurchased for future cancellation, from the current NCIB and a prior one, 1,376,500 common shares, resulting in 1,760,000 treasury shares held for cancellation. During the three months ended May 31, 2019, the Company cancelled all treasury shares. On April 25, 2019, the Company suspended its NCIB in advance of the offering of the 2019 Debentures and resumed the NCIB on June 13, 2019. From June 13, 2019 to the date of this report, the Company repurchased an additional 674,500 of its common shares, resulting in 674,500 treasury shares held for cancellation.

RISK MANAGEMENT

The Company's risks related to financial instruments and how the Company manages each of those risks are described in Note 23 to the Company's consolidated financial statements for the year ended August 31, 2018. There were no significant changes to the Company's exposures to those risks or to the Company's management of its exposures during the three and nine months ended May 31, 2019 except as noted below.

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 May 31, 2019 were \$23,253,585 (August 31, 2018 - \$33,246,248). In addition, at May 31, 2019, the Company had letters of credit outstanding in the amount of \$25,000 (August 31, 2018 - \$125,000). At May 31, 2019 and August 31, 2018, the Company was in a working capital deficit position as described above in section *Financial Position and Liquidity*. Despite the increase in working capital deficit from August 31, 2018, management does not believe there is a significant change in liquidity risk in the three and nine months ended May 31, 2019, given the majority of the deficit position is the result of the classification of borrowings and the Company's business model has demonstrated that through limited partnership controlled by the Company they are able to obtain sufficient equity financing from investment partners and debt financing on reasonable terms. The changes in the cash flows from operations, investing and financing are detailed under section *Financial Position and Liquidity* above.

Commitments

Total commitments at May 31, 2019 did not vary significantly from the August 31, 2018 balances presented in Note 25 to the Company's Annual Financial Statements, with the exception of:

- Global Education City[®] (Richmond) - commitment reduced by approximately \$119 million resulting from a \$77 million reduction in price and additional refundable deposits of \$10 million paid in the period.
- GEC Education Mega Center[®] - commitment reduced by approximately \$187 million given a fundamental change in the agreement under which the Project 7 limited partnership controlled by the Company will purchase the land and complete the development and construction of the building. Contractors to develop and build the property have not yet been committed, and overall the total commitment is expected to be slightly reduced over the length of development from the original estimate.
- GEC[®] Oakridge – new commitment of approximately \$40 million associated with the anticipated purchase of land for Project 10 as described in the *Third Quarter Highlights* summary.

Borrowings

The Company controls and is an investor in certain limited partnerships associated with its student housing business. These limited partnerships obtain third party financing to fund a portion of the purchase price of the applicable real estate projects. A detailed discussion of the borrowings held under secured loans is included in Note 11 of the Q3 2019 Financial Statements. During the Third Quarter of Fiscal 2019 the Company issued convertible debentures as described in the *Third Quarter Highlights* section under 2019 Debentures. See also *Financial Position and Liquidity* section above.

Fair value measurement risk on investment properties

Note 7(e) to the Annual Financial Statements provides information on the valuation and sensitivity analysis associated with investment properties. The investment properties are valued annually dependent on the highest and best use for the specific property, which does not differ from their actual use. The fair value of each investment property was determined by external independent qualified appraisers with recent experience in the location and category of the investment property being valued.

At the end of each period, the Company records 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 of level 3 fair value measurements in the nine months ended May 31, 2019 from August 31, 2018.

Fair value of embedded derivatives on convertible debentures

The 2019 Debentures issued in May 2019 include a combined embedded derivative for the prepayment and extension options and an embedded conversion option in the HKD denominated debentures. The fair value of the combined embedded derivative was determined as the present value of future expected cash flows if these options were exercised, that includes management's estimate of the probability of these options being exercised. The fair value of the HKD denominated debenture conversion feature is calculated using the Black-Scholes option pricing model. The embedded derivatives will be re-measured at each period end. The fair value of the host liability for the Canadian denominated debenture was calculated using a discounted cash flow analysis using a discount rate for a non-convertible 2-year corporate bond for similar companies. The valuation of embedded derivatives is a level 2 fair value measurement.

TRANSACTIONS WITH RELATED PARTIES AND INVESTMENT PARTNERS

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

(a) Amounts due from officers, employees, directors and non-arm's length investors:

	<u>May 31, 2019</u>	<u>August 31, 2018</u>
Due from Beihai College ⁽¹⁾	\$ 176,955	\$ 204,126

⁽¹⁾ The amount due from Beihai College is non-interest bearing with no set terms of repayment the represents the non-eliminating portion of the intercompany account resulting from joint venture accounting.

(b) Amounts due to officers, employees, directors and non-arm's length investors:

	<u>May 31, 2019</u>	<u>August 31, 2018</u>
Due to officers and directors of the Company ⁽¹⁾	\$ 876,423	\$ 1,335,717
Due to the President of IRIX ⁽²⁾	132,243	126,486
Due to investors of GEC® Viva ⁽³⁾	-	721,871
	<u>\$ 1,008,666</u>	<u>\$ 2,184,074</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:

	<u>May 31, 2019</u>	<u>August 31, 2018</u>
Accounts receivable – Weifang University ⁽¹⁾	\$ 4,779,662	\$ 3,741,149
Accounts payable – Weifang University ⁽¹⁾	(2,417,472)	(1,649,176)
	<u>\$ 2,362,190</u>	<u>\$ 2,091,973</u>

⁽¹⁾ Included in trade receivables on a net basis.

(d) Management fees and salaries:

During the three and nine months ended May 31, 2019, the Company and its subsidiaries incurred a total of \$256,510 and \$719,530 (three and nine months ended May 31, 2018 – \$219,700 and \$426,402) for management fees and salaries paid to certain directors and officers employed by the Company and its subsidiaries.

NON-GAAP FINANCIAL PERFORMANCE MEASURES

The non-IFRS financial measures do not have the standardized meanings prescribed by IFRS and are therefore unlikely to directly be directly comparable to similar measurements presented by other issuers. These performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with the Q3 2019 Financial Statements.

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

The Company uses: (a) Earnings before Interest, Taxes, Depreciation and Amortization (“**EBITDA**”); and (b) Adjusted EBITDA which is EBITDA adjusted for the gain (loss) on change in fair value of the Company’s investment properties. Certain investors, analysts and others utilize these non-IFRS financial metrics in assessing the Company’s financial performance. These non-IFRS financial measurements have not been presented as an alternative to net income (loss) or any other financial measure of performance measure prescribed by IFRS. The following provides a reconciliation of the non-IFRS measures.

EBITDA and Adjusted EBITDA

Management uses EBITDA metrics to measure the profit trends of the business units and segments in the consolidated group since it eliminates the effects of financing decisions. Management has presented Adjusted EBITDA which subtracts the gain recognized on fair value changes on investment properties under the fair value model. These amounts represent the appreciation in value of investment properties as determined by external independent qualified appraisers 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. Recognized gains are not realized until the investment property is sold; however, these amounts do represent real changes in the value of the Company’s real estate portfolio.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2019	2018	2019	2018
	(\$)	(\$)	(\$)	(\$)
Income – Continuing operations	295,361	7,958,031	5,689,170	16,645,768
Deduct: interest income ⁽¹⁾	(125,157)	(45,110)	(163,316)	(148,341)
Add: interest on borrowings	1,682,270	1,554,271	4,539,618	2,978,485
Add: income tax provision (recovery)	(1,032,990)	-	(727,193)	-
Add: depreciation and amortization	547,792	481,585	1,625,266	1,232,334
EBITDA [non-IFRS]	1,367,276	9,948,777	10,963,545	20,708,246
Deduct: gain on changes in fair value of investment properties	-	-	(8,100,000)	(8,634,612)
Adjusted EBITDA [non-IFRS]	1,367,276	9,948,777	2,863,545	12,073,634

⁽¹⁾ Interest income not associated with operations. Comparative periods adjusted to reflect this amount.

Additional GAAP financial measures - gross margin from operations

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

Additional GAAP financial measures - operating income

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

ACCOUNTING MATTERS UPDATE

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements include the accounts of CIBT Education Group Inc., the ultimate parent company of its consolidated group, and its subsidiaries and are prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Certain disclosures included in annual financial statements prepared in accordance with IFRS as issued by the IASB have been condensed or omitted. Accordingly, the unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended August 31, 2018.

The Company's interim results are not necessarily indicative of its results for a full year. All amounts are expressed in Canadian dollars, unless otherwise noted. Certain comparative information has been retrospectively adjusted to reflect the finalization of a business combination transaction during the year ended August 31, 2018.

The accounting policies applied in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in Note 29 of the Company's audited consolidated financial statements for the year ended August 31, 2018, with the exception of the application of IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 - *Financial Instruments* ("IFRS 9"), and other narrow scope amendments, as described in Note 4 to the Q3 2019 Financial Statements.

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 accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

In preparing the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended May 31, 2019, the Company applied the critical judgements and estimates, including significant areas of estimation uncertainty in applying these policies, disclosed in Note 3 of its audited consolidated financial statements for the year ended August 31, 2018. In addition, the Company applied the following critical judgements in applying accounting policies and estimates.

Expected credit loss allowance and provision as result of adopting IFRS 9

The Company previously provided for bad debts by setting aside a percentage of trade receivable sales towards the allowance account based on historical default experience. The Company also reviewed the collectability of other non-trade receivables and provides an allowance, if required, based on anticipated collectability.

On adoption of IFRS 9, the Company determined an expected credit loss allowance for trade receivables based on their 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 include 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.

Value of convertible debentures components issued in 2019

The Company determines the fair value components of the 2019 Debentures depending on the nature of the component. Judgement is required in determining the observable 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 2019 Debentures. The Company will determine the fair value of these embedded derivatives within the 2019 Debentures at the end of each reporting period until maturity.

ACCOUNTING STANDARDS DEVELOPMENT

The impact of future accounting changes is disclosed in Note 4 to the Q2 2019 Financial Statements including those accounting policies that are applicable to the Company starting September 1, 2018 in Note 4(a) and the standards that are issued but not yet effective until future dates in Note 4 (b) and (c). The listing includes those standards and interpretations issued that the Company reasonably expects to be applicable to the Company at a future date. The Company intends to adopt these standards when they become effective.

The Company has 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, that did not have an impact on the Company’s unaudited condensed consolidated interim financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company’s internal controls over financial reporting or disclosure controls and procedures during the three and nine months ended May 31, 2019, that have materially affected, or are reasonably likely to have materially affected, the Company’s internal controls over financial reporting.

RISKS RELATED TO THE COMPANY’S BUSINESS

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

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

A more detailed description of the above risks and uncertainties, and others, can be found under the heading “Risk Factors” in the Company’s annual information form for Fiscal 2018 filed under the Company’s profile on SEDAR at www.sedar.com. See also above under “Forward-Looking Information”.