



CIBT EDUCATION GROUP INC.
CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2020

EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE NOTED

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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 statement of financial position as at August 31, 2020 and 2019, and the consolidated statements of comprehensive income (loss), 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, 2020 and 2019, 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 30, 2020

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

August 31, 2020

August 31, 2019

ASSETS			
CURRENT			
Cash and cash equivalents	\$	23,030	\$ 15,213
Restricted cash		239	249
Trade and other receivables (Note 11)		26,179	21,319
Development assets (Note 6)		500	6,650
Income taxes receivable		28	3,570
Prepayments		4,157	2,809
Inventory		656	714
TOTAL CURRENT ASSETS		54,789	50,524
Investment properties (Note 5)		246,327	201,450
Property and equipment (Note 7)		59,126	61,416
Right-of-use assets (Note 8(a))		11,908	-
Development assets (Note 6)		64,498	56,600
Intangible assets and goodwill (Note 9)		13,304	17,717
Deferred income tax assets (Note 20(b))		1,631	1,650
Other		1,184	313
TOTAL ASSETS	\$	452,767	\$ 389,670
LIABILITIES			
CURRENT			
Trade and other payables (Note 12)	\$	16,438	\$ 16,248
Income taxes payable		1,501	178
Deferred revenue		20,405	23,177
Current portion of borrowings (Note 13)		118,601	42,089
Current lease liabilities (Note 8(b))		3,970	-
TOTAL CURRENT LIABILITIES		160,915	81,692
Borrowings (Note 13)		86,314	102,062
Lease liabilities (Note 8(b))		13,480	-
Deferred income tax liabilities (Note 20(b))		11,479	11,762
TOTAL LIABILITIES		272,188	195,516
EQUITY			
SHARE CAPITAL		49,534	50,786
RESERVES (Note 14(c))		6,108	6,571
DEFICIT		(4,616)	(6,108)
ACCUMULATED OTHER COMPREHENSIVE INCOME		243	199
Equity attributable to CIBT Education Group Inc. shareholders		51,269	51,448
Non-controlling interests (Note 16(a))		129,310	142,706
TOTAL EQUITY		180,579	194,154
TOTAL LIABILITIES AND EQUITY	\$	452,767	\$ 389,670

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 (LOSS)
EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE DATA

	Year Ended August 31, 2020	Year Ended August 31, 2019
REVENUES		
Educational	\$ 46,875	\$ 52,061
Design and advertising	716	862
Commissions and referral fees	401	692
Development fees	4,540	4,347
Rental (Note 5(d))	10,016	13,035
	<u>62,548</u>	<u>70,997</u>
DIRECT COSTS		
Educational	20,548	22,986
Design and advertising	158	192
Commissions and referral fees	183	455
Rental (Note 5(d))	4,750	7,090
	<u>25,639</u>	<u>30,723</u>
OTHER EXPENSES		
General and administrative (Note 17)	27,952	34,030
Amortization of property, equipment and intangible assets	4,609	2,215
Share-based payment expense	208	251
	<u>32,769</u>	<u>36,496</u>
OPERATING INCOME	4,140	3,778
Finance costs (Note 18)	(8,168)	(6,594)
Net (loss) gain on fair value changes in investment properties (Note 5(a))	(5,730)	20,116
Other income (expense), net (Note 19)	5,317	(1,213)
INCOME (LOSS) BEFORE INCOME TAXES	<u>(4,441)</u>	<u>16,087</u>
INCOME TAX PROVISION (Note 20(a))	310	1,155
NET INCOME (LOSS)	<u>\$ (4,751)</u>	<u>\$ 14,932</u>
ATTRIBUTABLE TO:		
CIBT Education Group Inc. shareholders	\$ 1,229	\$ 2,614
Non-controlling interests	\$ (5,980)	\$ 12,318
	<u>\$ (4,751)</u>	<u>\$ 14,932</u>
Net income (loss) per share attributable to equity holders of CIBT Education Group Inc. (Note 14(e))		
Basic	<u>\$ 0.02</u>	<u>\$ 0.03</u>
Diluted	<u>\$ (0.01)</u>	<u>\$ 0.03</u>

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

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

	Year Ended August 31, 2020	Year Ended August 31, 2019
NET INCOME (LOSS)	\$ (4,751)	\$ 14,932
OTHER COMPREHENSIVE INCOME (LOSS):		
Items that are or may be reclassified subsequent to profit or loss:		
Exchange differences on translating foreign operations	45	(50)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (4,706)	\$ 14,882
ATTRIBUTABLE TO:		
CIBT Education Group Inc. shareholders	\$ 1,273	\$ 2,565
Non-controlling interests	\$ (5,979)	\$ 12,317
	\$ (4,706)	\$ 14,882

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	AOCI	Deficit	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
		Number of Common Shares	Dollar Amount						
September 1, 2018		78,185,040	\$ 52,040	\$ 5,692	\$ 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 (loss)					(49)	2,614	2,565	12,317	14,882
Share-based payments		-	-	251	-	-	251	-	251
Payments to non-controlling interests	16(a)	-	-	-	-	-	-	(10,246)	(10,246)
Non-controlling interests' contributions	16(a)	-	-	-	-	-	-	17,004	17,004
Change in ownership interests	16(a)	-	-	1,003	-	-	1,003	1,486	2,489
Purchase of treasury shares	14(b)	-	-	(1,832)	-	-	(1,832)	-	(1,832)
Treasury share cancellations	14(b)	(1,760,000)	(1,323)	1,323	-	-	-	-	-
Shares issued - stock option exercises		82,500	50	(17)	-	-	33	-	33
Shares issued - share warrant exercises		25,000	19	-	-	-	19	-	19
Equity component of convertible debt		-	-	151	-	-	151	-	151
August 31, 2019		76,532,540	\$ 50,786	\$ 6,571	\$ 199	\$ (6,108)	\$ 51,448	\$ 142,706	\$ 194,154
IFRS 16 adoption adjustment	4(a)	-	-	-	-	263	263	-	263
September 1, 2019 as restated		76,532,540	\$ 50,786	\$ 6,571	\$ 199	(5,845)	51,711	142,706	194,417
Net income (loss) for the year		-	-	-	-	1,229	1,229	(5,980)	(4,751)
Unrealized translation adjustments		-	-	-	44	-	44	1	45
Total comprehensive income (loss)					44	1,229	1,273	(5,979)	(4,706)
Share-based payments		-	-	208	-	-	208	-	208
Payments to non-controlling interests	16(a)	-	-	-	-	-	-	(900)	(900)
Non-controlling interests' contributions	16(a)	-	-	-	-	-	-	4,783	4,783
Changes in ownership interests	16(a)	-	-	(398)	-	-	(398)	(13,680)	(14,078)
Purchase of treasury shares	14(b)	-	-	(1,138)	-	-	(1,138)	-	(1,138)
Treasury share cancellations	14(b)	(1,991,500)	(1,253)	1,253	-	-	-	-	-
Shares issued – stock option exercises		2,500	1	-	-	-	1	-	1
Equity component of convertible debt, net	14(c)	-	-	(388)	-	-	(388)	2,380	1,992
August 31, 2020		74,543,540	\$ 49,534	\$ 6,108	\$ 243	\$ (4,616)	\$ 51,269	\$ 129,310	\$ 180,579

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		Year Ended
	August 31, 2020		August 31, 2019
OPERATING ACTIVITIES			
Net income (loss)	\$ (4,751)	\$	14,932
Items not affecting cash:			
Depreciation and amortization (Note 7, 8, 9)	7,927		3,667
Share-based payment expense (Note 15(a))	208		251
Net loss (gain) on fair value changes in investment properties (Note 5(a))	5,730		(20,116)
Impairment of intangible assets and goodwill (Note 19)	3,556		1,682
Accretion of finance costs	1,178		663
Accretion of lease liabilities	1,486		-
Interest income on deposit due from developer	(2,794)		-
Deferred income tax expense (recovery) (Note 20(a))	(1,009)		5,639
Loss on disposal of assets	53		51
Other	(108)		599
Decrease in working capital (Note 26(a))	(3,882)		(17,130)
Net cash provided by (used in) operating activities	7,594		(9,762)
INVESTING ACTIVITIES			
Purchases of property and equipment	(476)		(1,216)
Investment properties, net	(29,658)		1,274
Deposits on investment properties	(3,000)		(12,150)
Investment properties development costs and fees	(403)		(1,114)
Additions of intangible assets (Note 9)	(2,754)		(1,216)
Other	179		1
Net cash used in investing activities	(36,112)		(14,421)
FINANCING ACTIVITIES			
Cash flows associated with borrowings (Note 26(c))	52,791		4,312
Payments of lease liabilities (Note 8(d))	(5,252)		-
Capitalized borrowing costs	(7,102)		(2,072)
Promissory note receivable	196		375
Advances to related parties, net	(614)		(869)
Proceeds from issuance of shares, net of costs	1		52
Repurchase of common shares (Note 14(b))	(1,138)		(1,832)
Non-controlling interests, net (Note 16(a))	(500)		8,758
Deferred financing costs (Note 26(c))	(2,087)		(2,517)
Net cash provided from financing activities	36,295		6,207
Effects of exchange rate changes on cash and cash equivalents	40		(57)
Increase (decrease) in cash and cash equivalents	7,817		(18,033)
Cash and cash equivalents, beginning of year	15,213		33,246
Cash and cash equivalents, end of the year	\$ 23,030	\$	15,213

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, 2020

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 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 Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective as of August 31, 2020.

These consolidated financial statements of the Company were approved by the Company’s Board of Directors and authorized for issue on November 30, 2020.

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 debenture 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 application of IFRS 16 – *Leases* (“IFRS 16”) as described in Note 4(a) 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)).

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.

In March 2020, the World Health Organization declared a global pandemic caused by the outbreak of the novel coronavirus specifically identified as COVID-19 (“COVID-19”). It is not possible to reliably estimate the length or severity of the pandemic and the impact on the financial results of the Company in the future. There are significant uncertainties with respect to the impact to the Company related to COVID-19 including the duration, severity and scope of the outbreak and the measures taken by governments and businesses to contain the pandemic, including travel restrictions. The Company has seen a negative impact on its operations during the year ended August 31, 2020 mainly related to travel restrictions impacting occupancy rates in certain of the Company’s real estate properties and international student enrollment and also to the decrease in its fair value of investment properties.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

August 31, 2020

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical judgements in applying accounting policies

Information about judgements made in applying accounting policies that have the most significant effect 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 market or regulatory environment that would impact the conclusion that these are intangibles have indefinite life. Management assessed and concluded that certain intangible assets no longer provide benefit to the Company and these were impaired at August 31, 2020.

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, 2020 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 are offered, which are 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 5 and 7).

Value of convertible debt components

At inception of an instrument, the Company determines the value of the components of the convertible debt 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 debt. The Company determines the fair value of embedded derivatives within the convertible debt at the end of each reporting period until maturity or conversion.

(b) Key sources of estimation uncertainty

Information about assumptions and estimation uncertainties at August 31, 2020 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 using the appropriate valuation technique based on whether the investment property is revenue producing, property under development or a right-of-use asset. 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. Judgement 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 5(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, 2020

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Key sources of estimation uncertainty (continued)

Leases

In measuring the Company's leases under IFRS 16 which was adopted on September 1, 2019, the Company must determine the lease term of the contract including whether the Company is reasonably certain to exercise extension options where it is the lessee. A longer lease term results in a larger lease liability and right-of-use asset to be recognized by the Company and future changes in this lease term will result in modifications. In addition, the Company must determine the incremental borrowing rate used to measure lease liabilities on adoption and at inception of a lease for leases entered after adoption of IFRS 16. Judgement is required in determining the unobservable inputs used in determining the incremental borrowing rate.

Expected credit loss allowance and provision

The Company determines 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 22(b)).

Impairment of indefinite life intangible assets and goodwill

Indefinite life intangible assets and goodwill are reviewed for impairment annually on August 31 or more frequently if changes in circumstances indicate that the carrying value may be impaired. At May 31, 2020, the Company determined the decline in certain revenues sources resulting from COVID-19 indicated that the carrying value of certain indefinite life intangibles and goodwill may be impaired. The Company completed impairment testing on those assets at May 31, 2020 and certain intangible assets and goodwill were impaired. The Company completed its annual impairment testing at August 31, 2020 and determined certain other intangible assets and goodwill were impaired.

Impairment of an asset occurs when the assets 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 unit being measured. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as to the expected future cash flows and the growth rate. To arrive at cash flow projections the Company uses estimates of economic and market information over the forecast period, including expected results which incorporate assumptions underlying the length of time management expects it will take for revenue and operational activities to recover from the impacts of COVID-19. The Company exercises significant judgement in determining scenarios for recovery and their relative weightings of probability. Where goodwill is considered impaired based on these estimates, impairment losses are not reversed. Other significant estimates and assumptions include future estimates of capital expenditures and 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 10).

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 7 and 9).

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

August 31, 2020

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 the following new standards and amendments issued by the IASB and incorporated in the Chartered Professionals Accountants of Canada Handbook.

- IFRS 16, *Leases*
- *Annual Improvements to IFRS Standards 2015 – 2017 Cycle*
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Company changed its accounting policies as a result of adopting IFRS 16 as described below. The other amendments listed did not have any impact on the amounts recognized in the current year or prior periods and are not expected to significantly impact future periods.

Leases

Effective September 1, 2019, the Company adopted IFRS 16, which replaced IAS 17, *Leases* (“IAS 17”) and related interpretive guidance. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The Company applied IFRS 16 using a modified retrospective approach. Accordingly, comparative information presented for the prior period has not been restated and the cumulative effect of initially applying IFRS 16 has been recognized at the date of initial application of September 1, 2019. In May 2020, an amendment to IFRS 16 was issued to provide lessees with an optional exemption from assessing whether a rent concession that is being offered as a direct response to the economic impacts of COVID-19 is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020 and earlier adoption is permitted. The Company early adopted the amendment during the quarter ended May 31, 2020.

Impact on transition as a lessee

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. The significant accounting policy adopted (Note 28(I)) will apply to lease contracts entered, or changed, on or after September 1, 2019. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 and accordingly does not change the Company’s accounting policy for rental revenues earned under lease arrangements in which the Company is the lessor.

As a practical expedient, the Company applied IFRS 16 at the date of initial application to contracts that were previously identified as leases under IAS 17. The Company also elected to measure the right-of-use asset for each lease, at September 1, 2019, except for right-of-use assets classified as investment property, at an amount equal to the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments.

On initial application of IFRS 16, the Company recognized right-of-use assets and lease liabilities in relation to leases which had previously been classified as operating leases. For leases previously classified as finance leases, the Company recognized the carrying amount of the lease assets and lease liabilities immediately before the date of initial application as the carrying amount of the right-of-use asset and lease liability, respectively, at the date of initial application. The Company has one right-of-use asset classified as investment property which was measured at fair value at lease inception date. At each subsequent reporting period, the Company will determine the fair value of the cash flows and record a loss on change in fair value which will result in the investment property being reduced to nil at the end of the lease term. Unamortized tenant improvement allowances have been credited against leasehold improvement assets.

CIBT EDUCATION GROUP INC.
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NOTE 4 – APPLICATION OF NEW AND REVISED IFRSs AND FUTURE ACCOUNTING POLICIES (continued)

(a) Application of new and revised IFRSs (continued)

The impact on initial application of IFRS 16 to items in the Consolidated Statement of Financial Position on September 1, 2019 is summarized as follows:

Assets:	
Right-of-use assets	\$ 13,996
Investment property right-of-use asset	6,823
Property and equipment	(1,409)
Current other receivables	48
Other non-current assets	456
Prepayments	(602)
Liabilities:	
Lease liabilities	\$ 20,358
Borrowings (finance lease obligations)	(483)
Accrued liabilities	(927)
Deferred income tax liabilities	101
Deficit	263

In measuring the lease liabilities, the Company discounted the remaining lease payments using its incremental borrowing rate at September 1, 2019 on a portfolio basis. The weighted average rate applied was 8.0%. The recognition of a lease liability and right-of-use asset results in the recognition of interest and depreciation expense, as compared to rent expense within general and administrative expense and direct costs under IAS 17, with total interest and depreciation expense during the earlier periods of a lease term being higher than the later periods.

The Company used the following practical expedients to apply IFRS 16 to leases previously classified as operating leases under IAS 17 using the modified retrospective approach on September 1, 2019:

- (a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review;
- (c) elected not to recognize right-of-use assets and lease liabilities for leases with lease terms ending within 12 months of the date of initial application; and
- (d) used hindsight when determining the lease term.

The following table reconciles the Company's operating lease commitments at August 31, 2019, as previously disclosed in the Company's consolidated financial statements applying IAS 17, to the lease liabilities recognized on initial application of IFRS 16 at September 1, 2019. Of the \$20,358 in lease liabilities at September 1, 2019, \$3,779 were current and \$16,579 were non-current.

Operating lease commitments at August 31, 2019	\$ 20,550
Add (deduct) the effects of the following:	
Extension options reasonably certain to be exercised	5,234
Recognition exemption for short-term leases	(132)
Leases not yet commenced	(130)
Other	(508)
Discounting using the incremental borrowing rate at September 1, 2019	(5,139)
Lease liabilities for lease classified as operating under IAS 17	19,875
Finance lease liabilities recognized at August 31, 2019	483
Lease liabilities recognized at September 1, 2019	\$ 20,358

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

(a) Application of new and revised IFRSs (continued)

Impact on transition as a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it is the lessor, except for subleases. The Company reassessed its subleases that were classified as operating leases applying IAS 17 and ongoing at the date of initial application of IFRS 16 and concluded that the application of IFRS 16 did not have any impact on the classification of the subleases as operating leases.

(b) New accounting standards, interpretations and amendments not yet effective

There are a number of new accounting standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to early adopt. These standards are not expected to have a material impact on the Company in the year of adoption, with possibly the exception of the narrow scope amendment described below.

Annual Improvements

Annual Improvements make necessary but non-urgent amendments to existing IFRSs. In May 2020, the IASB issued the 2018 – 2020 cycle of Annual Improvements which included amendments to standards with an effective date of annual periods on or after January 1, 2022, which applies to the Company commencing September 1, 2022. These amendments are not expected to have a significant impact on the Company's consolidated financial Statements.

Other narrow scope amendments/interpretations

In January 2020, the IASB issued "Classification of Liabilities as Current or Non-current (Amendments to IAS 1)" which provides a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual periods beginning on or after January 1, 2023 with early adoption permitted. The Company has not yet assessed the impact of this amendment.

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

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August 31, 2020

NOTE 5 – 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, 2020	August 31, 2019
Balance, beginning of period	\$ 201,450	\$ 144,670
Recognition of right-of-use asset on initial application of IFRS 16 ⁽¹⁾	6,823	-
Adjusted balance at September 1, 2019	208,273	144,670
Acquisitions ⁽²⁾⁽³⁾	31,569	33,036
Capital additions	61	230
Remeasurement of lease liability	97	-
Development costs	2,728	1,326
Capitalized borrowing costs ⁽⁴⁾	9,329	2,072
Net (loss) gain on change in fair value	(5,730)	20,116
Balance, end of period	\$ 246,327	\$ 201,450

(1) Land and building sold in August 2018 and leased back by the Company represents a right-of-use asset on adoption of IFRS 16. The fair value of the right-of-use asset is determined based on the estimated future net cash flows of the right-of-use asset. The change in fair value of the right-of-use asset between the lease commencement date and September 1, 2019, the initial application date of IFRS 16, was recorded as an adjustment to opening deficit net of tax. The change in fair value of the right-of-use asset between September 1, 2019 and August 31, 2020 was recorded as a loss on fair value change in investment property of \$1,604 in the Consolidated Statement of Comprehensive Income (Loss).

(2) In late February 2020, a limited partnership controlled by the Company purchased land for future development associated with GEC Project 10 for \$30,300. Previously paid deposits of \$1,650 were applied to the purchase price. For the year ended August 31, 2020, a fair value gain of \$3,673 was recognized.

(3) The Company purchased GEC Project 7 in August 2019 as further described in (c) below.

(4) 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

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. The following table presents the carrying value of investment properties using the fair value model (Note 5(e)) and Note 28(E)):

		August 31, 2020	August 31, 2019
	<u>Date purchased</u>		
GEC Property 2	August 2018	\$ 80,580	\$ 83,050
GEC Property 3 right-of-use asset	August 2018	5,317	-
GEC Property 5	October 2016	19,430	18,440
Total revenue producing properties		\$ 105,327	\$ 101,490

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

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August 31, 2020

NOTE 5 – INVESTMENT PROPERTIES (continued)**(b) Fair market value (continued)**

		August 31, 2020		August 31, 2019	
	<u>Date purchased</u>				
GEC Property 1 – land	October 2017	\$	18,720	\$	18,320
GEC Property 6 – land	September 2016		33,900		32,300
GEC Property 7 – land	August 2019		50,480		49,340
GEC Property 10 – land	February 2020		37,900		-
Total properties under development		\$	141,000	\$	99,960
Total value of investment properties		\$	246,327	\$	201,450

(c) Acquisition of GEC Project 7

In August 2019, the transactions contemplated under an original and amended Purchase and Development Agreement (“Amended PDA”) under which a developer would construct GEC Project 7 on the lands purchased for this purpose and sell the completed project to a limited partnership controlled by the Company, closed at the price agreed to in May 2017. The original purchase price of the land was \$22,600. The Amended 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 is 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, 2020, the fair value of the investment property was \$50,480 (August 31, 2019 - \$49,340). A fair value loss of \$3,714 was recognized in the year ended August 31, 2020 (year ended August 31, 2019 – fair value gain of \$15,304).

The Amended PDA requires certain future payments totalling \$12,130 to be made to the vendor for services that the vendor will provide to ensure the project is completed. These amounts will be paid when specific progress milestones are reached which represents completion of the work done by the vendor to successfully reach those milestones. The first payment is due when 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. A deposit of \$500 previously paid by the Company will offset the last payment pursuant to the Amended PDA (Note 24).

Future payments under the Amended 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 were not considered part of the purchase price of the land or a provision at August 31, 2020 and August 31, 2019. The Company assesses whether a provision is appropriate at the end of each reporting period.

The Amended PDA provides that in the case that the aforementioned milestones are not met, the limited partnership who owns the land 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 the limited partnership and the vendor after repayment of related financing and selling costs, and a management fee of \$1,500 to the vendor. The Company continues to proceed with the construction as planned.

(d) Rental operations

The following presents the activities of the operating investment properties and the hotel included within the Company’s real estate portfolio:

	Year ended		Year ended	
	August 31, 2020		August 31, 2019	
Rental revenues	\$	10,016	\$	13,035
Direct operating costs generating revenue		(4,750)		(7,090)
Other indirect costs, including financing		(8,022)		(9,383)
Loss on change in fair value of right-of-use investment property		(1,604)		-
Net loss	\$	(4,360)	\$	(3,438)

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 5 – INVESTMENT PROPERTIES (continued)

(d) Rental operations (continued)

Rental revenues include: (a) lease revenues under IFRS 16 for investment properties; and (b) for owner-occupied property service contracts, non-lease components and other revenues under IFRS 15 – *Revenue from contracts with customers*. On adoption of IFRS 16 at September 1, 2019 and for the year ended August 31, 2020, amounts paid for the lease of the right-of-use assets, with the exception of variable lease payments, are no longer included in direct operating costs and are now included as part of indirect costs.

(e) Measurement of fair values

i. Fair value hierarchy

The fair value of each investment property is valued at least annually at the end of each financial year by external independent professionally qualified appraisers with recent experience in the location and category of the investment property being valued, with the exception of investment property classified as right-of-use assets. At the end of each reporting period, the Company records the fair value of its investment properties taking into consideration such valuations and other market conditions existing at the date of valuation. For the investment property classified as a right-of-use asset, the fair value is determined at the end of each reporting period based on the present value of discounted cash flows receivable under the lease until the end of the lease.

The valuation of investment properties is a level 3 fair value measurement as it involves significant unobservable inputs 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, 2020 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, the significant unobservable inputs used, and the interrelationship between the unobservable inputs and the resulting fair value measurement. The revenue producing investment properties are valued based on the highest and best use for the specific property, which does not differ from their actual use.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
---------------------	---------------------------------	--

Valuation method used for revenue producing properties

Income approach:

The valuation method is based on forecasted stabilized net operating income (“NOI”)⁽¹⁾ divided by an overall capitalization rate based on current market expectations.

- Projected total gross annual rental income based on expected rental growth rate and vacancy rate for a stabilized building;
- Estimated total gross annual operating expenses
- Capitalization rate

The estimated fair value would increase (decrease) if: (a) stabilized NOI was higher (lower); and (b) capitalization rates were lower (higher)⁽²⁾

⁽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 higher the fair value. Small incremental increases or decreases in unobservable inputs can have a significant impact on the measurement of fair value.

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

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August 31, 2020

NOTE 5 – INVESTMENT PROPERTIES (continued)**(e) Measurement of fair values (continued)****ii. Valuation technique and significant unobservable inputs (continued)**

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
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Valuation method used for properties under developmentDirect comparison approach:

The valuation method is based on comparison to recent sales of properties of similar types, location and quality.

- Price per buildable square foot.

The estimated fair value would increase (decrease) if: the buildable square foot price based on comparable market rates increased (decreased)

iii. Sensitivity analysis

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, 2020. In determining the fair value of a revenue producing property, in certain cases the fair value determined under the income approach is reduced by an amount known as a rental loss amount. This amount reflects expectations about the potential economic impact of COVID-19 on these properties over the year. GEC Property 3 is not included in analysis below as noted in Note 5(a).

		Net operating income ⁽²⁾				
		-1.00%	-0.50%	As Forecasted	+0.50%	+1.00%
		3,761	3,780	3,799	3,818	3,837
Capitalization Rate						
-0.25%	3.55%	5,975	6,511	7,046	7,581	8,116
Capitalization Rate ⁽¹⁾	3.80%	(1,000)	(500)	-	500	1,000
+0.25%	4.05%	(7,114)	(6,645)	(6,176)	(5,706)	(5,237)

⁽¹⁾ Weighted-average capitalization rate for GEC Property 2 and GEC Property 5 used in fair value measurement with range of inputs between 3.75% and 4.00%. For the year ended August 31, 2019, the weighted average capitalization rate was 3.66%.

⁽²⁾ Net operating income forecasted for the year ended August 31, 2019 was \$3,718.

Properties under development

The fair value of 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 four properties under development at August 31, 2020, 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 \$2,820 and a 4% increase/decrease would increase/decrease the fair value by \$5,640. 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.

During the year ended August 31, 2020, the fair value of properties under development were measured with reference to fewer transactions of a comparable nature compared to the prior year as a result of the impacts of COVID-19 on real estate markets.

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

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NOTE 6 – DEVELOPMENT ASSETS

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

	August 31, 2020	August 31, 2019
Deposits ⁽¹⁾	\$ 40,500	\$ 41,650
Receivable from developer ⁽²⁾	23,044	20,000
Deferred costs ⁽³⁾	1,454	1,600
	\$ 64,998	\$ 63,250
Current deposits	500	1,650
Current receivable from developer	-	5,000
Less: current development assets	\$ 500	\$ 6,650
Non-current development assets	\$ 64,498	\$ 56,600

⁽¹⁾ Deposits advanced to parties under real estate agreements which are applied to the purchase price of an investment property in the period the investment property is purchased. Deposits are refundable subject to the terms of the agreement if the purchase of a property is not completed.

⁽²⁾ See GEC Project 9 below. GEC LP 9 expects to receive the entire deposit plus interest back from the developer after August 31, 2021. Amount includes \$3,044 interest receivable on deposit due from developer. At August 31, 2019, \$250 interest receivable was presented in Trade and other receivables.

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

GEC Project 9

Pursuant to a Purchase and Development Agreement ("LP9 PDA") with a Vancouver developer for the construction of a number of buildings, at August 31, 2019 GEC LP 9 had paid a total of \$60,000 in deposits associated with the right to purchase the completed project. In March 2019, the LP9 PDA was amended to reflect that \$20,000 of the deposits already paid would be returned to GEC LP 9 in accordance with the terms of the agreement versus being applied on purchase. Commencing August 1, 2019, 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 until the entire deposit and accrued interest thereon is paid. During the year ended August 31, 2020 there was an amendment to the terms of the LP9 PDA to further define certain terms including escalating interest. Certain milestones were not reached and it was determined that repayment at a date in advance of closing of the purchase will be based on the developer receiving third party financing.

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

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NOTE 7 – PROPERTY AND EQUIPMENT**(a) Reconciliation of carrying amounts**

	Land & Buildings ⁽²⁾	Furniture & equipment	Leaseholds	Equipment Lease ⁽¹⁾	Total
Cost					
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
IFRS 16 adoption adjustments ⁽¹⁾	-	-	(1,134)	(1,148)	(2,282)
Adjusted balance at Sept 1, 2019	56,879	8,400	3,300	39	68,618
Additions and other movements	-	345	170	(39)	476
Disposals	-	(31)	-	-	(31)
Foreign exchange adjustments	-	10	-	-	10
August 31, 2020	\$ 56,879	\$ 8,724	\$ 3,470	\$ -	\$ 69,073
Accumulated Depreciation					
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)
IFRS 16 adoption adjustments ⁽¹⁾	-	-	168	705	873
Adjusted balance at Sept 1, 2019	(423)	(5,376)	(2,812)	-	(8,611)
Depreciation for the year	(287)	(1,005)	(79)	-	(1,371)
Disposals and other	-	29	16	-	45
Foreign exchange adjustments	-	(10)	-	-	(10)
August 31, 2020	\$ (710)	\$ (6,362)	\$ (2,875)	\$ -	\$ (9,947)
Net carrying amounts					
At August 31, 2019	\$ 56,456	\$ 3,024	\$ 1,454	\$ 482	\$ 61,416
At August 31, 2020	\$ 56,169	\$ 2,362	\$ 595	\$ -	\$ 59,126

⁽¹⁾ As at September 1, 2019, equipment under finance leases were assessed under IFRS 16 and removed from the caption Equipment Lease above and included as right-of-use assets – equipment. In addition, tenant improvement allowances were adjusted from leasehold assets on adoption of IFRS 16 and do not form part of the right-of-use asset. Right-of-use assets associated with premises are classified separately from Property and Equipment. For the year ended August 31, 2019, the Company only recognized leased assets and lease liabilities that were classified as finance leases. Refer to Note 4(a) for change in accounting policy.

⁽²⁾ At August 31, 2020, the land and buildings form security for the principal borrowing of \$45,570 of GEC Limited Partnership 8.

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

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August 31, 2020

NOTE 8 – LEASES

The Company has leased a number of campus premises and equipment in connection with its education business and office premises. The campus leases typically run for a period of at least five years with an option to renew the lease after that date. The Company has also leased a serviced apartment building for its student housing business which has been classified as investment property (Note 5) and for which it earns short-term sublease income. The majority of campus leases require the payment of additional rent for operating costs and taxes which are not based on an index or rate and are recognized as rent expense. Lease payments for short-term leases and leases of low value assets are recognized as rent expense on a straight-line basis over the lease term. For leases where the Company is the lessor, see Note 5(d).

(a) Right-of-use assets

The following table presents the change in the carrying amount of the Company's right-of-use assets:

	Premises	Equipment	Total
September 1, 2019 ⁽¹⁾	\$ 13,474	\$ 522	\$ 13,996
Additions	681	110	791
Changes to leases	101	(40)	61
Depreciation	(2,783)	(157)	(2,940)
August 31, 2020	\$ 11,473	\$ 435	\$ 11,908

⁽¹⁾ See Note 4(a) for explanation of adoption of IFRS 16. Assets classified as finance leases under IAS 17 and previously included in Property and equipment were reclassified as right-of-use assets.

(b) Lease liabilities

The maturity analysis of lease liabilities is as follows:

	August 31, 2020
Current: Less than one year	\$ 3,970
<u>Non-current</u>	
Between one and five years	9,421
More than five years	4,059
	<u>13,480</u>
Total lease liabilities	<u>\$ 17,450</u>

(c) Amounts recognized in consolidated statement of comprehensive income (loss)

	Year ended August 31, 2020
Income from subleasing right-of-use assets ⁽¹⁾	\$ 2,732
<i>The following items are expense items:</i>	
Accretion of lease liabilities ⁽²⁾	1,486
Depreciation of right-of-use assets	2,940
Expense relating to short-term and low-value leases ⁽³⁾	268
Expense relating to variable lease payments ⁽⁴⁾	2,155
Expense relating to unrecoverable taxes ⁽³⁾	269
Loss on fair value change – right-of-use asset ⁽⁵⁾	1,604

⁽¹⁾ Included in rental revenues with exception of \$131 recognized as other income. In addition to the investment property, during the year ended August 31, 2020, two leased campuses have been subleased to third parties.

⁽²⁾ Included in Finance costs (Note 18).

⁽³⁾ Included in rent expense within general and administrative expense (Note 17).

⁽⁴⁾ Included in rent expense within general and administrative expense with exception of \$47 for year ended August 31, 2020, respectively, included in direct costs.

⁽⁵⁾ Included in net gain on fair value changes in investment properties (Note 5(a)).

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

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NOTE 8 – LEASES (continued)**(d) Amounts recognized in consolidated statement of cash flows**

For the year ended August 31, 2020, \$5,252 of payments related to lease liabilities were recognized in the Consolidated Statement of Cash Flow as cash outflows classified within financing activities. During the year ended August 31, 2020, total cash outflows associated with leases was \$7,637 which includes payment for variable costs, short-term leases, low-value leases, and non-refundable taxes. These additional costs are included in cash provided by operating activities.

NOTE 9 – INTANGIBLE ASSETS AND GOODWILL

Summary of total intangible assets and goodwill follows:

	August 31, 2020		August 31, 2019	
Intangible assets with definite life	\$	1,151	\$	2,056
Intangible assets with indefinite life		6,318		6,605
Goodwill		5,835		9,056
Total intangible assets and goodwill	\$	13,304	\$	17,717

Intangible assets with definite life

	Curriculum		Foreign cooperative agreements		Agency fees		Total
Cost							
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
Additions		47		-		2,707	2,754
Disposals ⁽¹⁾		-		-		(9,434)	(9,434)
Foreign exchange adjustments		-		12		-	12
August 31, 2020	\$	2,113	\$	918	\$	1,682	\$ 4,713
Accumulated amortization							
August 31, 2018	\$	(1,195)	\$	(768)	\$	(5,745)	\$ (7,708)
Amortization ⁽²⁾		(161)		(15)		(1,451)	(1,627)
Foreign exchange adjustments		-		10		-	10
August 31, 2019		(1,356)		(773)		(7,196)	(9,325)
Amortization ⁽²⁾		(160)		(138)		(3,318)	(3,616)
Disposals ⁽¹⁾		-		-		9,434	9,434
Impairment		(48)		-		-	(48)
Foreign exchange adjustments		-		(7)		-	(7)
August 31, 2020	\$	(1,564)	\$	(918)	\$	(1,080)	\$ (3,562)
Net carrying amounts							
At August 31, 2019	\$	710	\$	133	\$	1,213	\$ 2,056
At August 31, 2020 ⁽³⁾	\$	549	\$	-	\$	602	\$ 1,151

⁽¹⁾ Disposals represent intangible assets which are fully amortized and are being written off. The amount for the year ended August 31, 2020 includes write-off of amounts fully amortized in prior years.

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

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NOTE 9 – INTANGIBLE ASSETS AND GOODWILL (continued)

(2) Amortization of agency fees are allocated to direct educational costs on the Consolidated Statements of Comprehensive Income (Loss).

(3) At August 31, 2020, the weighted average remaining useful life was 5.21 years for curriculum and 0.38 years for agency fees.

Intangible assets with indefinite life	Accreditations & registrations		Brand-names & tradenames		Chinese university agreements		Total
Cost							
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
Impairment loss ⁽¹⁾		(182)		(105)		-	(287)
At August 31, 2020	\$	2,381	\$	3,476	\$	461	\$ 6,318

(1) During the year ended August 31, 2020, an impairment loss of \$287 (year ended August 31, 2019 - \$382) was recognized in Other income (expense), net in the Consolidated Statements of Comprehensive Income (Loss) as certain indefinite life assets were determined to have no recoverable value and were written off.

NOTE 10 – IMPAIRMENT TESTING OF INTANGIBLE ASSETS AND GOODWILL**(a) Carrying amounts**

The following tables reflect the carrying amounts of indefinite life intangible assets and goodwill by cash-generating unit (“CGU”) after the recognition of impairment losses.

Intangible Assets with Indefinite Life	August 31, 2020		August 31, 2019	
Sprott Shaw College Corp.	\$	5,857	\$	5,857
Sprott Shaw Language College (B.C.) Corp. (“SSLC BC”)		-		25
Sprott Shaw Language College (Ontario) Corp. (“SSLC ON”)		-		55
CIBT Beihai International College		461		461
Vancouver International College		-		207
	\$	6,318	\$	6,605
Goodwill ⁽¹⁾				
		August 31, 2020		August 31, 2019
Sprott Shaw College Corp.	\$	5,218	\$	5,218
Sprott Shaw Language College (B.C.) Corp.		-		1,041
Sprott Shaw Language College (Ontario) Corp.		317		916
Vancouver International College		-		1,581
GEC Master 1 Limited Partnership		300		300
	\$	5,835	\$	9,056

(1) The carrying amount of goodwill reflects impairment losses totalling \$3,221 for the year ended August 31, 2020 and \$1,300 for the year ended August 31, 2019.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 10 – IMPAIRMENT TESTING OF INTANGIBLE ASSETS AND GOODWILL (continued)

(a) Carrying amounts (continued)

The Company is required to perform impairment testing on an annual basis. In addition, they assess whether there are indicators of impairment at each reporting date and if they exist, then test whether impairment exists at that date. During the year ended August 31, 2020, the Company determined the decline in certain revenues sources resulting directly from COVID-19 indicated that were indicators that the carrying value of certain indefinite life intangibles and goodwill may be impaired. As such the Company performed impairment tests at May 31, 2020 and at August 31, 2020 to determine the recoverable amount of each indefinite life intangible asset and each CGU. The recoverable amount was calculated using the value in use method which determines the recoverable amount by discounting the future cash flows expected to be generated from the continuing use of the assets and/or CGU.

(b) Impairment testing for CGUs containing goodwill

The impairment tests during the year ended August 31, 2020, concluded that the recoverable amount of certain CGU's were less than the carrying amount and the Company recognized the following impairment losses:

- SSLC ON CGU - \$599
- SSLC BC CGU - \$1,041
- VIC CGU - \$1,581

The projected value in use for the SSLC BC, SSLC ON and VIC CGU's were adversely impacted by a decline in revenues associated with the economic impact of COVID-19 on international education revenues.

The key assumptions used in the estimation of the recoverable amounts for CGU's were as follows. The values assigned to the key assumptions represent management's assessment of cash flow projections for each CGU based on expectations of revenue growth, expense and margin changes based on historical data from both external and internal sources. The Company's estimates of cash flows incorporated assumptions on the length of time management expects it will take for revenue and operational activities to recover from the impacts of COVID-19. Cash flows were projected over a five-year period based on past experience and actual operating results taking into consideration the estimated impact of COVID-19 by determining cash flow scenarios and weighting the probability of occurrence.

	Discount rate ⁽¹⁾			Growth rate ⁽²⁾⁽³⁾		
	August 31, 2020	May 31, 2020	2019	August 31, 2020	May 31, 2020	2019
Sprott Shaw College Corp.	22.1%	22.5%	22.6%	0.2%	0.8%	2.3%
Sprott Shaw Language College (B.C.) Corp.	n/a	22.8%	23.5%	n/a	19.7%	3.4%
Sprott Shaw Language College (Ontario) Corp.	27.5%	29.0%	28.3%	3.1%	12.3%	6.4%
Vancouver International College	n/a	28.1%	24.9%	n/a	10.3%	(0.4)%
GEC Granville Limited Partnership	9.5%	9.5%	9.0%	23.5%	21.9%	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. Discount rates used in the August 31, 2020 and May 31, 2020 impairment testing were not adjusted for a risk premium as the cash flows were adjusted to consider the estimated economic impact of COVID-19. Discount rates used in annual August 31, 2019 impairment testing were adjusted for a risk premium to reflect the specific risks of each CGU. The discount rate represents the midpoint of the ranges of risks. Where discount rates are marked n/a, there were no assets to test at August 31, 2020.

(2) Growth rate represents the five-year compound annual forecasted revenue growth rate and is used to forecast cash flows for the five years using a terminal value capitalization rate. Growth rates are based on expected revenue growth considering past experience, estimated sales volume, and price growth. Except for SSCC, the growth rates used in the May 31, 2020 impairment test were considerably higher than the growth rates used in the August 31, 2019 impairment test. Revenues for the nine months ended May 31, 2020 and the year ended August 31, 2020 were abnormally low due to the impact of COVID-19, and when used as the basis of calculating future growth results in the higher growth rates compared to the prior year. The higher growth rates reflect the expectation that revenues will return to normal levels in future periods. The growth rates used in the August 31, 2020 impairment test reflect progression towards the stabilization of revenues in future periods for the education CGU's.

(3) 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.

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NOTE 10 – IMPAIRMENT TESTING OF INTANGIBLE ASSETS AND GOODWILL (continued)**(b) Impairment testing for CGUs containing goodwill (continued)**

Significant management judgement is necessary to evaluate the impact of operating and economic changes on the Company including the estimated economic impacts of COVID-19. Critical assumptions include timing and rate of revenue recovery, 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 loss.

NOTE 11 – TRADE AND OTHER RECEIVABLES

	August 31, 2020		August 31, 2019
Trade receivables ⁽¹⁾	\$ 16,204	\$	14,349
Less: credit loss allowance (Note 22(b))	(1,824)		(1,924)
Net trade receivables	\$ 14,380	\$	12,425
Promissory note receivable	292		488
Loan receivables and other	10,324		8,406
Government grant receivable ⁽²⁾	1,183		-
	\$ 26,179	\$	21,319

⁽¹⁾ Includes net trade receivables amounts due from related party (Note 25(c)).

⁽²⁾ Amount due from Government of Canada associated with the Canadian Emergency Wage Subsidy (“CEWS”) claims which were received subsequent to August 31, 2020. Subsequent to August 31, 2020, the Company made applications for additional wage subsidy amounts of approximately \$683.

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. On September 1, 2020, the Company demanded repayment and interest will continue to accrue until payment is received.

All other amounts have repayment and interest terms in accordance with the agreements or are due on demand and do not attract interest. Subsequent to August 31, 2020, approximately \$3,200 of the balance was collected.

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

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NOTE 12 – TRADE AND OTHER PAYABLES

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

	August 31, 2020		August 31, 2019
Trade accounts payable and accrued liabilities (below)	\$ 11,838	\$	10,733
Payables due to related parties (Note 25(b))	781		1,312
Promissory note payable	-		586
Other payables	3,819		3,617
Trade and other payables	\$ 16,438	\$	16,248

	August 31, 2020		August 31, 2019
Trade accounts payable	\$ 4,708	\$	4,619
Payroll and related liabilities	2,426		1,607
Tuition fees and grants payable	2,239		2,148
Tenant lease deposits	671		613
Tenant lease inducements	-		951
Borrowings interest payable	1,794		581
Other	-		214
	\$ 11,838	\$	10,733

Other Payables

Certain subsidiaries of the Company may owe amounts to certain third parties as the result of advances provided either: (a) from prospective third-party investors in certain real estate limited partnerships for the proposed sale of limited partnership units which represents a payable until the units are subscribed and issued; or (b) from other parties associated with real estate limited partnership agreements. At August 31, 2020 and 2019, other payables are mainly associated with amounts due to one real estate limited partnership. There are no terms of repayment and balances do not attract interest.

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 – BORROWINGS

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

	August 31, 2020	August 31, 2019
Current liabilities		
Current portion of secured loans (a)	\$ 87,605	\$ 40,276
Credit facility ⁽¹⁾	910	1,422
Current portion of convertible debentures issued in 2017 (b)	247	247
Current portion of convertible debentures (c)	7,879	-
Current portion of convertible promissory notes (d)	21,960	-
Current portion of finance lease liabilities ⁽²⁾	-	144
	<u>\$ 118,601</u>	<u>\$ 42,089</u>
Non-current liabilities		
Secured loans (a)	85,227	93,444
Convertible debentures issued in 2017 (b)	185	432
Convertible debentures (c)	615	7,847
Finance lease liabilities ⁽²⁾	-	339
Other	287	-
	<u>\$ 86,314</u>	<u>\$ 102,062</u>
Total borrowings	<u>\$ 204,915</u>	<u>\$ 144,151</u>

⁽¹⁾ Secured, non-revolving variable rate demand loan repayable in monthly instalments of principal and interest maturing April 2022.

⁽²⁾ Commencing on adoption of IFRS 16 on September 1, 2019 finance lease liabilities were included in lease liabilities (Note 8).

Total interest expense associated with borrowings including interest capitalized to investment properties was \$16,339 for the year ended August 31, 2020 (August 31, 2019 - \$9,083). Total interest expense associated with borrowings recognized in net income was \$7,010 for the year ended August 31, 2020 (August 31, 2019 - \$7,011). Approximately 67% of the outstanding borrowings at August 31, 2020 have variable interest rates linked to the Canadian prime rate (August 31, 2019 – 70%); however, the majority of these loans have minimum interest rates. 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 7.11% for the year ended August 31, 2020 (2019 – 6.93%).

(a) Secured loans

The following table is a continuity of the activity of the loans secured by mortgages associated with the real estate business. Loan payments are interest only or blended payments of principal and interest. Secured loans have maturity dates ranging from October 2020 to February 2022. Full repayment of loans before maturity is permitted subject to specific criteria and satisfaction of minimum interest payment requirements. See Note 22(a) for cash flow commitments related to these loans and Note 27(b) for financing activity occurring subsequent to August 31, 2020.

	August 31, 2020	August 31, 2019
Balance, beginning of year	\$ 133,720	\$ 112,128
Advances	75,500	62,500
Assumption of debt in asset acquisition	-	27,000
Repayments	(37,017)	(66,932)
Finance costs incurred	(2,074)	(2,220)
Accretion of finance costs	2,339	1,244
Modification adjustment	364	-
Total current and non-current secured loans, end of year	<u>\$ 172,832</u>	<u>\$ 133,720</u>

CIBT EDUCATION GROUP INC.

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NOTE 13 – BORROWINGS (continued)

(a) Secured loans (continued)

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.

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 expensed 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. 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) 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.

In February 2020, the Company issued Canadian dollar denominated convertible debentures and received proceeds of \$860 (the “2020 Debentures”). The 2020 Debentures mature in February 2022, subject to the Company’s exercise of the prepayment option or extension option as part of the terms of these debentures. At anytime between four months after issuance and before maturity, the debenture holder can elect to convert all or part of the then outstanding principal into common shares of the Company at a conversion price set at \$0.8118. Interest payments will be made semi annually at a rate of 8% per annum.

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NOTE 13 – BORROWINGS (continued)

(c) Convertible debentures (continued)

The balances associated with the 2019 and 2020 Debentures are presented as follows:

	August 31, 2020	August 31, 2019
Carrying value of host liability at beginning of year	\$ 7,057	\$ -
Proceeds of issue of debentures	860	8,642
Add (less): fair value of embedded derivatives ⁽¹⁾	50	(1,272)
Less: equity component of Canadian debenture, net of transaction costs ⁽¹⁾	(255)	(151)
Less: transaction costs ⁽²⁾	(15)	(248)
Accretion of carrying value of host liability	525	124
Foreign exchange adjustments	(99)	(38)
Carrying value of host liability at end of year	\$ 8,123	\$ 7,057
Fair value of embedded derivatives at beginning of year	\$ 790	\$ -
Fair value of embedded derivatives at inception ⁽¹⁾	(50)	1,272
Fair value decrease in liability ⁽³⁾	(381)	(475)
Foreign exchange adjustments	12	(7)
Balance, embedded derivatives at end of year	\$ 371	\$ 790
Total Debentures at end of year ⁽⁴⁾⁽⁵⁾	\$ 8,494	\$ 7,847

⁽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 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. 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.

⁽²⁾ Transaction costs totalling approximately \$15 were incurred of which \$1 were expensed in the year ended August 31, 2020 (year ended August 31, 2019 - \$296 and \$48).

⁽³⁾ Fair values of embedded derivatives are remeasured at the end of each reporting period as discussed in Note 21(b)(iii).

⁽⁴⁾ Accrued interest is included in Trade and other payables on the Consolidated Statements of Financial Position within the caption trade accounts payable and accrued liabilities (Note 12) at August 31, 2020 and August 31, 2019.

⁽⁵⁾ GECH granted a guarantee to each of the holders of the debentures guaranteeing the payment of all amounts owing by the Company to the holder.

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NOTE 13 – BORROWINGS (continued)**(d) Convertible promissory notes payable**

The Company executed the following convertible promissory notes during the year ended August 31, 2020. The convertible promissory notes bear interest at 8% per annum, mature one year after the date of issuance unless the lender exercises its option to convert into a fixed number of units of a limited partnership controlled by the Company. At initial recognition, the convertible promissory notes are considered a compound financial instrument that included a host liability classified as amortized cost and a conversion option classified as equity. The fair value of the host liability was determined first with the residual amount of the principal allocated to the equity component. The balances associated with the convertible promissory notes are presented as follows:

	August 31, 2020
Proceeds of issue of convertible promissory notes ⁽¹⁾	\$ 23,800
Less: equity component	(2,380)
Accretion of carrying value of host liability	540
Carrying value of host liability at end of year	\$ 21,960

⁽¹⁾ Includes non-cash consideration of \$6,844.

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, 2020, the Company issued 2,500 common shares associated with the exercise of stock options. 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 stock options; and (b) the issuance of 25,000 common shares on exercise of warrants.

(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.

At the end of November 2019, the Company suspended its NCIB and on December 13, 2019 this NCIB expired. In March 2020, the Company received approval by the TSX to commence a new NCIB to purchase up to 3,000,000 of the Company’s common shares, subject to daily limits, anytime during the period beginning on March 12, 2020 to March 11, 2021, to a maximum aggregate acquisition cost of \$3,000. See Note 27(d) for activity subsequent to August 31, 2020.

The following table details changes in the treasury shares balance:

	Number		Value
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
Purchases of treasury shares	2,098,200		1,138
Cancellation of treasury shares	(1,991,500)		(1,253)
Balance, August 31, 2020	1,451,700	\$	716

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NOTE 14 – SHARE CAPITAL (continued)**(c) Reserves**

The following table presents the components of reserves which are part of shareholder's equity. A description of the nature and purpose of each reserve is provided below the table.

	August 31, 2020	August 31, 2019
Total reserves at beginning of year	\$ 6,571	\$ 5,692
Share-based payment expenses ⁽¹⁾	208	251
Change in ownership interests	(398)	1,003
Treasury share purchases	(1,138)	(1,832)
Treasury share cancellations	1,253	1,323
Contributed surplus on stock option exercise ⁽¹⁾	-	(17)
Equity component of convertible debt, net ⁽²⁾	(388)	151
Total reserves at end of year	\$ 6,108	\$ 6,571

⁽¹⁾ Represents transactions with CIBT owners.

⁽²⁾ At August 31, 2020, equity component of 2020 Debentures net of tax of \$643 associated with equity component of convertible promissory notes attributable to non-controlling interests (Note 16).

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

- *Share-based payments reserve.* The reserve includes the amount of share-based payment expense for the period less the corresponding amounts charged to Share Capital on exercise of the underlying stock options. Reserve was \$4,312 at August 31, 2020 and \$4,104 at August 31, 2019.
- *Ownership changes reserve.* The reserve is comprised of amounts resulting from changes in ownership and other transactions associated with the Company's non-controlling interests that do not result in a loss of control (Note 16). Reserve was \$467 at August 31, 2020 and \$865 at August 31, 2019.
- *Treasury shares reserve.* The reserve comprises the cost of the Company's shares currently held by the Company in treasury for future cancellation (Note 14(b)). The cost of the Company's shares previously held is charged to Share Capital upon cancellation and return to treasury of these shares. Reserve was \$(716) at August 31, 2020 and \$(831) at August 31, 2019.
- *Convertible debt reserve.* The reserve includes the value of conversion rights of convertible debentures allocated to the equity offset by taxes associated with the convertible promissory notes. Reserve was \$(237) at August 31, 2020 and \$151 at August 31, 2019.
- *Warrant reserve.* The reserve for stock purchase 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. The balance at August 31, 2020 and 2019 was \$2,282.

(d) Share purchase warrants outstanding

At August 31, 2018, 1,987,196 share purchase warrants with an exercise price of \$0.75 were outstanding and exercisable. During the year ended August 31, 2019, 25,000 warrants were exercised and the remaining 1,962,196 expired unexercised.

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NOTE 14 – SHARE CAPITAL (continued)

(e) Basic and diluted common shares outstanding

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

	August 31, 2020	August 31, 2019
Net income attributable to CIBT shareholders	\$ 1,229	\$ 2,614
<i>Adjustment for dilutive instruments:</i>		
Impact of 2019 and 2020 Debentures, net of tax ⁽¹⁾	-	(134)
Interest savings on 2017 Debentures, net of tax	-	24
Impact of convertible promissory notes, net of tax ⁽²⁾	(2,155)	
Net income (loss) used in dilutive calculation	\$ (926)	\$ 2,504

⁽¹⁾ Includes the impact of interest savings offset by changes in fair value of embedded derivatives and foreign exchange associated with the 2019 and 2020 Debentures.

⁽²⁾ Assumes conversion of convertible promissory notes and associated allocation to non-controlling interests on this basis.

	August 31, 2020	August 31, 2019
Basic weighted average number of common shares outstanding	74,237,590	76,737,802
Effect of in-the-money stock options ⁽¹⁾	-	89,886
Effect of in-the-money share purchase warrants ⁽¹⁾	-	175
Effect of 2019 and 2020 Debentures	-	3,025,470
Effect of 2017 Debentures	-	1,171,866
Diluted weighted average number	74,237,590	81,025,199

⁽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.

⁽²⁾ For the year ended August 31, 2020, the following instruments were excluded from the calculation of the diluted weighted average number of common shares outstanding as they were anti-dilutive: 3,490,000 stock options, 546,871 common shares underlying potential conversion of 2017 Debentures, and 11,467,123 common shares underlying potential conversions of 2019 and 2020 Debentures (August 31, 2019 – 2,345,000 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, 2020, share-based payment expense was \$208 (year ended August 31, 2019 - \$251) and is included as a separate line item on the Consolidated Statements of Comprehensive Income (Loss).

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

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

The weighted average fair value of stock options granted during the year ended August 31, 2020 of \$0.19 per option (August 31, 2019 - \$0.32 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, 2020	Year Ended August 31, 2019
Expected life	5 years	5 years
Risk-free interest rate	0.55%	1.91%
Expected dividend yield	0.00%	0.00%
Expected volatility	47.8%	50.6%
Weighted average share price	\$ 0.45	\$ 0.71

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 of Canadian government zero coupon bonds with a remaining term equal to the stock options expected life. The Company estimated a weighted average forfeiture rate of 6.75% for stock options granted during the year ended August 31, 2020 (year ended August 31, 2019 – 5.25%). 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 2020	Weighted Average Exercise Price	Number of Options 2019	Weighted Average Exercise Price
Outstanding at September 1,	2,422,500	\$ 0.74	1,867,500	\$ 0.72
Granted during the year	1,080,000	\$ 0.44	1,000,000	\$ 0.71
Exercised during the year	(2,500)	\$ 0.38	(82,500)	\$ 0.40
Expired/forfeited during the year	(10,000)	\$ 0.78	(362,500)	\$ 0.61
Outstanding at August 31	3,490,000	\$ 0.65	2,422,500	\$ 0.74
Exercisable at August 31	2,185,000	\$ 0.71	1,366,250	\$ 0.75

The options outstanding at August 31, 2020 had an exercise price range of \$0.38 to \$0.86 (August 31, 2019 - \$0.38 to \$0.86) and a weighted average contractual life of 3.13 years (2019 – 3.47 years). At August 31, 2020, if all exercisable options were exercised total cash received would be \$1,550 (August 31, 2019 - \$1,018). The weighted average share price at the date of exercise for stock options exercised in the year ended August 31, 2020 was \$0.68 (2019 - \$0.75).

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NOTE 16 – INTERESTS IN OTHER ENTITIES**(a) Continuity of non-controlling interests**

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*.

	August 31, 2020	August 31, 2019
GECH at beginning of year	\$ 142,840	\$ 122,342
IFRS standards adoption adjustment	-	(66)
Contributions from sale of limited partnership units	4,783	17,004
Distributions ⁽¹⁾	(900)	(10,246)
Ownership changes not resulting in loss of control (b)	(3,984)	1,486
Ownership changes resulting in loss of control ⁽²⁾	(9,696)	-
Equity component of convertible promissory notes ⁽³⁾	2,380	-
Allocation of net comprehensive income (loss)	(5,909)	12,320
GECH at end of year	129,514	142,840
CIBT China	(31)	32
IRIX	(173)	(166)
Total non-controlling interests	\$ 129,310	142,706

⁽¹⁾ During the year ended August 31, 2020, distributions were made to limited partners in certain limited partnerships controlled by the Company. During the year ended August 31, 2019, in addition to normal course distributions of \$954, net distributions of \$9,292 were made to GEC Limited Partnership 3 following the sale of the investment property in August 2018.

⁽²⁾ During the year ended August 31, 2020, the Company sold its units in GEC Limited Partnership 10 and lost control of that subsidiary which had limited activity aside from equity contributions. At the loss of control date, the non-controlling interest of \$9,696 was derecognized with no gain or loss.

⁽³⁾ Represents equity conversion feature of convertible promissory notes allocated to non-controlling interests on consolidation (Note 13).

For the year ended August 31, 2020, net cash used from non-controlling interests was \$500, comprised of net contributions offset by net withdrawals adjusted for cash consideration paid of \$4,383 related to ownership changes. 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.

(b) 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. 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 proportion to the non-controlling interests.

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

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NOTE 16 – INTERESTS IN OTHER ENTITIES (continued)**(b) Transactions with non-controlling interests (continued)**

The following table summarizes the non-controlling interests and the Company's ownership of the individual limited partnerships which hold the real estate projects which are included in the GECH operating segment.

Real Estate Projects	Formed	Non-controlling interest %		Company's Ownership %	
		August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
GEC Limited Partnership 1	March 2016	79.41%	76.97%	20.59%	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 5	November 2015	75.00%	75.00%	25.00%	25.00%
GEC Limited Partnership 6 ⁽¹⁾	August 2016	67.64%	72.94%	32.36%	27.06%
GEC Limited Partnership 7 ⁽²⁾	August 2016	78.86%	79.01%	21.14%	20.99%
GEC Limited Partnership 8	October 2017	53.33%	53.33%	46.67%	46.67%
GEC Limited Partnership 9 ⁽³⁾	February 2018	72.33%	72.54%	27.67%	27.46%
GEC Limited Partnership 10	October 2018	n/a	80.00%	n/a	20.00%
GEC Limited Partnership 11 ⁽⁴⁾	January 2020	0.00%	n/a	100.00%	n/a
GEC Limited Partnership 12 ⁽⁴⁾	July 2020	0.00%	n/a	100.00%	n/a

The Company completed several transactions with real estate limited partnerships which did not result in a loss of control. The most significant transactions were as follows.

- (1) During the year ended August 31, 2020, the limited partnership paid \$2,112 to purchase limited partnership units previously held by non-controlling interests which were then cancelled. In addition, the Company paid \$246 to purchase units held by non-controlling interests. These equity transactions resulted in an increase of the Company's ownership in the limited partnership and a \$101 increase in the ownership change reserve.
- (2) During the year ended August 31, 2020, the Company purchased units from a limited partnership for \$25. The difference of \$15 from the carrying value of \$40 was recognized as an equity transaction in the ownership change reserve.
- (3) During the year ended August 31, 2019, the Company received consideration of \$2,000 from non-controlling interests on the sale of certain limited partnership units. The excess of \$514 over the carrying value of \$1,486 was recognized as an equity transaction in the ownership change reserve. During the year ended August 31, 2020, the Company increased their ownership percentage as they repurchased these same shares.
- (4) During the year ended August 31, 2020, these limited partnerships executed convertible promissory notes payable. If the conversion options are exercised there will be non-controlling ownership in future periods (Note 13(d)).

(c) Control of real estate projects

The Company and certain of its subsidiaries enter into various agreements and organizational transactions in connection with the development of the Company's student housing business. In particular, the Company has developed 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 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 have been assessed to have complete responsibility for the conduct of all the business activities of the limited partnership. A 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.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 16 – INTERESTS IN OTHER ENTITIES (continued)

(c) Control of real estate projects (continued)

Where Master 1 and Master 2 own 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 do 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.

(d) 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 proportionate consolidation method. Beihai results are included within the CIBT China reporting segment. See Note 22(c)(ii) for a description of risks associated with this joint operation.

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	Year Ended August 31, 2020	Year Ended August 31, 2019
Advertising	\$ 3,245	\$ 3,761
Bank charges and interest	395	516
Credit loss allowance and write-offs ⁽¹⁾	525	1,239
Consulting and management fees	1,021	1,914
Investor relations	85	94
Office and general	3,705	4,073
Professional fees	2,928	3,433
Rent ⁽²⁾	2,741	5,795
Salaries and benefits	13,050	12,827
Travel and promotion	257	378
	<u>\$ 27,952</u>	<u>\$ 34,030</u>

⁽¹⁾ Includes amounts not included in credit loss allowance of \$(52) for the year ended August 31, 2020 (year ended August 31, 2019 – write-offs not included in credit loss allowance of \$516).

⁽²⁾ Certain amounts previously classified as rent expense are accounted for as depreciation expense and accretion of lease liabilities for the year ended August 31, 2020 due to the implementation of IFRS 16 (Note 8).

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

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NOTE 18 – FINANCE COSTS

	Year Ended August 31, 2020	Year Ended August 31, 2019
<i>Interest expense comprised of following:</i>		
Interest expense on borrowings	\$ 12,934	\$ 7,993
Accretion of deferred finance costs	3,405	1,090
Accretion of lease liabilities ⁽¹⁾	1,486	-
	17,825	9,083
Less: capitalized interest	(9,329)	(2,072)
Total interest expense	8,496	7,011
Gain on embedded derivatives, net (Note 13(c))	(381)	(475)
Other	53	58
Finance costs	\$ 8,168	\$ 6,594

⁽¹⁾ See Note 8(c).**NOTE 19 – OTHER INCOME (EXPENSE), NET**

	Year Ended August 31, 2020	Year Ended August 31, 2019
Interest and other income, net ⁽¹⁾	\$ 3,051	\$ 620
Government grants ⁽²⁾	5,793	-
Foreign exchange gain (loss)	82	(100)
Impairment of intangibles (Note 10)	(335)	(382)
Impairment of goodwill (Note 10)	(3,221)	(1,300)
Loss on disposal of equipment	(53)	(51)
	\$ 5,317	\$ (1,213)

⁽¹⁾ Includes \$2,794 interest income on a deposit receivable from a developer (Note 6) during the year ended August 31, 2020 (year ended August 31, 2019 - \$250). Also includes net loss on debt modifications of \$364 during the year ended August 31, 2020 (year ended August 31, 2019 – loss on debt modifications of \$155).

⁽²⁾ Includes funds claimed under the CEWS program for the claim periods up to and including August 29, 2020.

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

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NOTE 20 – INCOME TAXES**(a) Amounts recognized in net income (loss) and reconciliation**

The following table is a reconciliation of income tax expense, at the Canadian income tax rate and the amount of reported income tax expense in the Consolidated Statements of Comprehensive Income (Loss). The Company's operations are subject to income taxes primarily in Canada and China.

	Year Ended August 31, 2020	Year Ended August 31, 2019
Income before taxes	\$ (4,441)	\$ 16,087
Statutory Canadian income tax rate ⁽¹⁾	27.0%	27.0%
Income tax recovery at statutory rate	(1,199)	4,343
Effect of differences in foreign tax rates	(3)	(3)
Non-deductible expenses, net	104	109
Impact of convertible debt	(173)	-
Effect of differences in prior period tax returns as filed	306	(870)
Change in deferred tax assets not recognized	777	(474)
Change in fair value of investment property	557	(2,715)
Impact of partnership loss allocation	176	644
Other	(235)	121
Income tax expense	\$ 310	\$ 1,155
Consisting of:		
Current tax expense (recovery)	\$ 1,319	\$ (4,484)
Deferred tax (recovery) expense	(1,009)	5,639
	\$ 310	\$ 1,155

⁽¹⁾ Comprised of the Canadian Federal effective corporate tax rate of 15.0% and the British Columbia provincial tax rate of 12.0%. The statutory tax rate in China was 25.0%.

(b) Deferred tax balances and tax losses carried forward

The following tables show deferred income tax assets and liabilities 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 unused tax losses.

	August 31, 2020	August 31, 2019
<i>Deferred income tax assets - Canada</i>		
Tax losses carried forward	\$ 1,808	\$ 1,795
Share issuance and finance costs	663	378
Property and equipment ⁽¹⁾	396	256
Intangible assets and goodwill	469	552
Investment property	46	-
Total deferred income tax assets	\$ 3,382	\$ 2,981
Set-off of tax ⁽²⁾	(1,751)	(1,331)
Net deferred tax assets	\$ 1,631	\$ 1,650

⁽¹⁾⁽²⁾ See footnotes on next page.

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

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

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NOTE 20 – INCOME TAXES (continued)**(b) Deferred tax balances and tax losses carried forward (continued)**

	August 31, 2020	August 31, 2019
<i>Deferred income tax liabilities</i>		
<u>Canada</u>		
Property and equipment ⁽¹⁾	166	269
Investment property	9,754	9,817
Convertible debt ⁽³⁾	730	134
Intangible assets and goodwill	2,465	2,758
<u>China</u>		
Intangible assets	115	115
Total deferred income tax liabilities	\$ 13,230	\$ 13,093
Set-off of tax ⁽²⁾	(1,751)	(1,331)
Net deferred income tax liabilities	\$ 11,479	\$ 11,762

⁽¹⁾ Includes impact of right-of-use assets and lease liabilities including IFRS 16 opening deferred tax liability of \$101.

⁽²⁾ Net deferred income tax assets and liabilities presented in the Consolidated Statements of Financial Position are comprised of the gross amounts presented by line item above offset where the Company and its wholly-owned subsidiaries have the legally enforceable right to set off current tax assets against current tax liabilities and these assets and liabilities relate to taxes from the same taxation authority.

⁽³⁾ Associated with convertible debentures and convertible promissory notes, \$643 of deferred tax recognized directly in equity.

The Company recognizes deferred tax assets to the extent that it is probable that future taxable profit will be available against which the Company can utilize the benefits of the deductible temporary differences and unused tax losses. 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, 2020	August 31, 2019
Non-capital loss carry-forwards ⁽¹⁾	\$ 622	\$ 572
Net capital loss carry-forwards ⁽²⁾	195	195
Investments	9	-
Intangible assets in Canada	3,063	-
Property and equipment in China	589	581
	\$ 4,478	\$ 1,348

⁽¹⁾ Carry-forwards are eligible to be applied to CIBT China earnings and expire in the years ending August 31, 2021 to 2025.

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

(c) Uncertainty over income tax treatments

The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

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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.

			<u>August 31, 2020</u>	<u>August 31, 2019</u>
Financial assets	Level	Measurement basis		
Cash and cash equivalents	1	Amortized cost	\$ 23,030	\$ 15,213
Restricted cash	1	Amortized cost	239	249
Trade and other receivables ⁽¹⁾	1	Amortized cost	24,995	21,319
Receivable from developer (Note 6)	2	Amortized cost	23,044	20,000
			<u>\$ 71,308</u>	<u>\$ 56,781</u>
Financial liabilities	Level	Measurement basis		
Trade and other payables	1	Amortized cost	16,438	16,248
Secured loans and credit line	2	Amortized cost	173,742	135,142
Finance lease obligations	2	Amortized cost	-	483
Lease liabilities (Note 8(b)) ⁽²⁾	n/a	Amortized cost	17,450	-
Debentures – liability ⁽³⁾	2	Amortized cost	8,123	7,057
Debentures – derivatives ⁽³⁾	3	FVTPL	371	790
2017 Debentures	2	FVTPL	432	679
Convertible promissory notes (Note 13(d))	2	Amortized cost	21,960	-
			<u>\$ 238,516</u>	<u>\$ 160,399</u>

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

⁽²⁾ Lease liabilities measured under IFRS 16 are not subject to classification in the fair value hierarchy.

⁽³⁾ 2019 and 2020 Debentures (Note 13(c)).

Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables, receivable due 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 28(O)). Level 1 instruments are measured on a recurring basis based on estimated fair value on exchange between willing parties.

Secured loans and credit line, finance lease obligations, the host liability of the 2019 Debentures and 2020 Debentures, the 2017 Debentures and convertible promissory notes are categorized within Level 2 of the fair value hierarchy. The embedded derivatives portion of the 2019 Debentures and 2020 Debentures are categorized within Level 3 of the fair value hierarchy. At August 31, 2020 and 2019 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, 2020 and 2019.

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NOTE 21 – FINANCIAL INSTRUMENTS (continued)

(b) Measurement of fair value (continued)

(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 and 2020 Debentures were calculated using a discounted cash flow analysis using a discount rate for a non-convertible 2-year corporate rate for similar companies. The fair value of the host liability for the convertible promissory notes were calculated using a discounted cash flow analysis using the Company's internal rate of return.

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

The 2019 and 2020 Debentures 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 (Loss).

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.

The length and severity of the global COVID-19 outbreak is currently unknown and may continue to cause general economic uncertainty in key global markets and a worsening of global economic conditions which may cause continued low levels of economic growth. The pace of recovery once the pandemic ends cannot be accurately predicted and may be slow. The Company's cash flows and its ability to obtain additional equity or debt financing, make interest and principal payments to its lenders and debenture holders, and make distributions to limited partnership unit holders may be impacted.

(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, reducing costs where possible given the current crisis, and applying for any available government funding to support its business. Cash and cash equivalents as at August 31, 2020 were \$23,030 (August 31, 2019 - \$15,213). In addition, the Company has an undrawn demand operating credit facility of \$2,175 at August 31, 2020.

Management prepares budgets and cash forecasts to ensure that the Company has sufficient funds to fulfill its financial obligations and has incorporated the estimated impacts of COVID-19 on each business segment to these forecasts. As a result of COVID-19, the Company expects there may be a temporary decline in cash balances and operating cash flows; however, the full impact on the Company and each business segment cannot be determined at this time. At August 31, 2020 and 2019, 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, 2020 from the year ended August 31, 2019.

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NOTE 22 – RISK MANAGEMENT (continued)**(a) Liquidity risk (continued)**

The Company has successfully raised capital financing in the past and anticipates it could do so in the future; however, there is no assurance that such financing will be available on favourable terms or at all. The Company may be eligible for lower interest rates as new debt is financed given the decrease in prime rates and other loan programs available. The Company made all interest and principal payments on its borrowings and interest payments to its debenture holders and does not believe liquidity risk has increased substantially.

Maturities of financial liabilities

The tables below present the Company's contractual undiscounted cash flows associated with financial liabilities broken into relevant maturity groupings based on their contractual maturities.

	Less than one year	2 – 3 years	4-5 years	Over 5 year	Total
<u>August 31, 2020</u>					
Trade and other payables	\$ 16,438	\$ -	\$ -	\$ -	\$ 16,438
Secured loans ⁽¹⁾	98,004	88,012	-	-	186,016
Lease payments ⁽²⁾	7,554	11,995	4,101	6,379	30,029
2019 and 2020 Debentures ⁽³⁾	887	10,185	-	-	11,072
2017 Debentures	247	185	-	-	432
Convertible promissory notes ⁽⁴⁾	25,704	-	-	-	25,704
Other loans	-	287	-	-	287
	<u>\$ 148,834</u>	<u>\$ 110,664</u>	<u>\$ 4,101</u>	<u>\$ 6,379</u>	<u>\$ 269,978</u>
<u>August 31, 2019</u>					
Trade and other payables	\$ 16,248	\$ -	\$ -	\$ -	\$ 16,248
Secured loans	48,984	99,340	-	-	148,324
Finance lease payments	175	331	40	-	546
2019 and 2020 Debentures ⁽²⁾	739	9,821	-	-	10,560
2017 Debentures	247	432	-	-	679
	<u>\$ 66,393</u>	<u>\$ 109,924</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ 176,357</u>

⁽¹⁾ Interest reserves of \$3,380 exist to offset future interest payments on certain borrowings.

⁽²⁾ Includes lease liabilities recognized under IFRS 16 of \$17,450 plus estimated variable and associated costs under these leases.

⁽³⁾ Assumes the Company will exercise the extension option and extend and principal repayment by one year.

⁽⁴⁾ At the option of the lender, convertible promissory notes may be converted into units of certain real estate limited partnerships.

At August 31, 2020, SSCC had two letters of credit outstanding in the total amount of \$125 (2019 – \$25 for one letter of credit). Subsequent to August 31, 2020, a letter of credit of \$373 was issued reducing the undrawn credit facility to \$1,802.

(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)).

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NOTE 22 – RISK MANAGEMENT (continued)**(b) Credit risk (continued)****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 from the Company's education business.

Trade accounts receivable are from individual customers and are not assessed based on 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.

The following table provides information about the exposure to credit risk and ECL's from individual customers at August 31, 2020.

	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	1.4%	\$ 11,463	\$ 166	No
1 – 30 days past due	86.4%	1,275	1,102	No
31 – 60 days past due	7.6%	118	9	No
61 – 90 days past due	24.1%	58	14	No
More than 90 days past due	71.1%	731	520	Yes
WFU accounts receivable ⁽¹⁾	0.5%	2,559	13	No
Total		\$ 16,204	\$ 1,824	

⁽¹⁾ The gross carrying amount of the WFU net trade receivable amount 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, 2020		August 31, 2019	
Beginning balance	\$	1,924	\$	1,449
IFRS 9 opening balance sheet adjustment		-		125
Net remeasurement of loss allowance		577		723
Amounts written off during the year as uncollectible		(677)		(373)
Ending balance	\$	1,824	\$	1,924

Other receivables

Loan receivables, other receivables and promissory notes receivable 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

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NOTE 22 – RISK MANAGEMENT (continued)

(b) Credit risk (continued)

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 changes in market prices such as foreign exchange rates and interest rates will affect the Company's results or value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters given the nature of the business, while optimizing returns.

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. At August 31, 2020, the variable interest rate risk was reduced from August 31, 2019 as approximately 67% of the outstanding borrowings were linked to variable interest rates compared to 70% at August 31, 2019. The weighted-average interest rate paid by the Company during the year ended August 31, 2020 on its secured loans and convertible debt was 7.11% (2019 – 6.93%). A 1% increase in the Canadian prime rate would result in a decrease in the Company's net income (loss) of approximately \$257 for the year ended August 31, 2020 (2019 - \$487), 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.

Exposure to currency risk

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. 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, 2020		August 31, 2019	
	RMB	Canadian \$	RMB	Canadian \$
Financial assets	18,639	\$ 3,552	16,460	\$ 3,062
Financial liabilities	(2,079)	(396)	(1,512)	(281)
Net exposure	16,560	\$ 3,156	14,948	\$ 2,781

An appreciation or depreciation of the RMB against the Canadian dollar of 2.5% results in an \$81 increase or decrease in foreign exchange gains/losses included in net income for the year ended August 31, 2020. The 2.5% benchmark represents the possible exposure based on fluctuations of foreign exchanges rates during the year ended August 31, 2020. For the year ended August 31, 2019, a 3% fluctuation may have resulted in a \$85 increase or decrease in foreign exchange gains/losses.

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

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NOTE 22 – RISK MANAGEMENT (continued)**(c) Market risk (continued)****ii. Currency risk (continued)**

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, 2020, the amount in the statutory reserve in China is \$Nil (2019 - \$Nil).

2019 Debentures

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

	August 31, 2020		August 31, 2019	
	HKD	Canadian \$	HKD	Canadian \$
Financial assets	39	\$ 7	398	\$ 68
Financial liabilities	(45,617)	(7,673)	(45,164)	(7,696)
Net exposure	(45,578)	\$ (7,666)	(44,766)	\$ (7,628)

The net exposure is mitigated at August 31, 2020 and 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 which it funds from the conversion of Canadian dollars to HKD.

The average HKD rate for the year ended August 31, 2020 was 0.1729 and the rate varied by 2% throughout the year. The average HKD rate from issuance 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 2% would result in \$153 increase or decrease in foreign exchange gains/losses included in net income for the entire financial liability but only \$14 for interest payments due within the next year.

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

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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, 2020	August 31, 2019
Total borrowings	\$ 204,914	\$ 144,151
Less: cash and cash equivalents	(23,030)	(15,213)
Net debt	<u>181,884</u>	<u>128,938</u>
Total equity	180,579	194,154
Less: Non-controlling interests' equity	(129,310)	(142,706)
CIBT shareholders' equity	<u>\$ 51,269</u>	<u>\$ 51,448</u>

At August 31, 2020, 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, 2020, 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) Non-cancellable operating leases****(i) Future minimum lease payments – leases as lessee**

The Company leases office space including corporate office space in Vancouver, B.C., and office and campus premises rental and equipment leases for the Company's education business, and the rental of a previous property held as an investment property. At August 31, 2019, the future minimum lease payments under non-cancellable leases were payable as follows. On September 1, 2019, the Company recognized right-of-use assets and lease liabilities for these leases, except for short-term and low-value leases (Note 4(a) and Note 8) in accordance with the adoption of IFRS 16.

	August 31, 2020	August 31, 2019
Less than one year	\$ -	\$ 5,102
Between one and five years	-	13,774
More than five years	-	1,674
	<u>\$ -</u>	<u>\$ 20,550</u>

(ii) Amounts recognized in comprehensive income

During the year ended August 31, 2019, expenses associated with operating leases were as follows. Commencing on September 1, 2019 on the adoption of IFRS 16, lease payments related to the lease liability are no longer recorded in rent expense. See Note 8 for lease related amounts recognized in comprehensive income (loss).

	August 31, 2020	August 31, 2019
Operating lease expense included in direct costs	\$ -	\$ 1,904
Rent included in general and administrative expense	-	5,795
	<u>\$ -</u>	<u>\$ 7,699</u>

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

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NOTE 24 – COMMITMENTS & CONTINGENCIES (continued)**(b) Real Estate Projects**

The Company and certain of its subsidiaries entered into agreements in connection with the development of Investment Properties. Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities are as follows. The amounts presented below do not include the commitment of \$48,000 associated with the purchase of an investment property which ultimately was purchased in October 2020 but for which conditions precedent to the purchase had not yet occurred at August 31, 2020.

	August 31, 2020	August 31, 2019
Investment property development and construction ⁽¹⁾	\$ 11,630	\$ 11,630
Purchase of investment property, net of deposits ⁽²⁾	69,415	78,065
Total commitments ⁽³⁾	\$ 81,045	\$ 89,695

⁽¹⁾ Amounts due from GEC Project 7 representing contingent liabilities, net of deposit (Note 5(c)).

⁽²⁾ At August 31, 2020, amount payable on completion and purchase of GEC Project 9. At August 31, 2019, included \$28,650 associated with GEC Project 10 which was purchased in the year ended August 31, 2020 (Note 5). At August 31, 2019, the GEC Project 9 commitment was net of the deposit due from developer of \$20,000.

⁽³⁾ See Note 27(a) for real estate commitments entered after August 31, 2020.

The total commitment does not include costs for contracts not yet in place, renovation, furnishings, closing costs or taxes which are not committed expenditures. The total commitment is subject to change depending on new agreements or amendments to agreements executed after August 31, 2020. The above amounts exclude deposits previously made (Note 6).

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. At August 31, 2020 and August 31, 2019, there were no restrictions on the realizability of investment properties or the remittance of income and proceeds of disposal.

(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.

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, 2020	Year Ended August 31, 2019
Management fees and salaries and directors' fees	\$ 1,103	\$ 1,927
Share-based payments	175	62
	\$ 1,278	\$ 1,989

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NOTE 25 – RELATED PARTY TRANSACTIONS (continued)**(b) Other related party balances and transactions:**

	August 31, 2020	August 31, 2019
Payable to officers and directors of the Company ⁽¹⁾	\$ 641	\$ 1,186
Payable to the president of IRIX ⁽²⁾	140	126
Due to related parties	<u>\$ 781</u>	<u>\$ 1,312</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 to the Chief Executive Officer of the Company.

⁽²⁾ No fixed terms of repayment, bearing interest at a rate of 6% per annum.

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

	August 31, 2020	August 31, 2019
Accounts receivable – Weifang University	\$ 5,922	\$ 4,611
Accounts payable – Weifang University	(3,363)	(2,404)
Net receivable included in trade receivables	<u>\$ 2,559</u>	<u>\$ 2,207</u>

Beihai College has a joint arrangement with Weifang University (Note 16(d)). 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 net amounts represent the Company's share of receivables and balances are non-interest bearing and have no specific terms of repayment.

NOTE 26 – SUPPLEMENTAL CASH FLOW INFORMATION**(a) Changes in non-cash working capital**

	Year Ended August 31, 2020	Year Ended August 31, 2019
Accounts receivable increase	\$ (5,227)	\$ (8,043)
Prepayments (increase) decrease	(334)	213
Inventory decrease	58	38
Accounts payable and accrued liabilities increase	1,889	921
Other payables decrease	(385)	(397)
Income taxes payable increase (decrease)	4,865	(8,461)
Deferred revenue decrease	(2,772)	(396)
Interest reserves increase ⁽¹⁾	(1,976)	(1,005)
Decrease in working capital	<u>\$ (3,882)</u>	<u>\$ (17,130)</u>

⁽¹⁾ Included in prepayments on Consolidated Statements of Financial Position.

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

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NOTE 26 – SUPPLEMENTAL CASH FLOW INFORMATION (continued)**(b) Cash amounts of interest and income taxes**

	Year Ended August 31, 2020	Year Ended August 31, 2019
Interest received	\$ 16	\$ 143
Interest paid	(11,720)	(7,850)
Income taxes (paid) recovered	3,358	(4,046)

(c) Changes in liabilities arising from financing activities

	August 31, 2020	August 31, 2019
Balances, beginning of year	\$ 144,151	\$ 115,604
Cash flows, comprised of:	52,791	4,312
Repayments of secured loans ⁽¹⁾	(37,532)	(66,405)
Repayment of 2017 convertible debt	(247)	(247)
New advances of secured loans (Note 13(a))	75,500	62,500
Issuance of convertible debt	860	8,642
Issuance of convertible promissory notes ⁽²⁾	13,930	-
Advances – other	280	-
Finance lease liability payments	-	(178)
<u>Liability related items:</u>		
Finance costs paid	(2,087)	(2,517)
Convertible promissory note issued ⁽²⁾	9,870	-
<u>Non-cash related items:</u>		
Debt assumed on purchase	-	27,000
Reclass finance leases under IFRS 16	(483)	-
Finance lease additions (disposals), net	-	6
Equity component of convertible debt	(2,635)	(151)
Derivative fair value changes	(381)	(475)
Finance cost accretion ⁽³⁾	3,775	1,368
Interest reserves repayment	-	(1,000)
Foreign exchange and other	(86)	4
Balances, end of year	\$ 204,915	\$ 144,151

⁽¹⁾ Includes credit facility activity.⁽²⁾ Convertible into units of specific limited partnerships controlled by the Company or repayable on maturity.⁽³⁾ Includes increase in carrying value of secured debt resulting from net debt modification gain (loss).

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 27 – EVENTS AFTER THE REPORTING PERIOD

(a) Purchase of new real estate property

In June 2020, a subsidiary of the Company entered into an agreement to purchase two occupied rental apartment buildings located in Metro Vancouver. The transaction closed on October 27, 2020 for a total purchase price of \$48,500 before closing costs. The Company obtained financing to fund a portion of the purchase price as noted in (b). The Company is in the process of determining the accounting basis for this property and whether it will be considered an asset acquisition or business combination.

(b) New Financing

Subsequent to August 31, 2020, the Company entered into agreements associated with its real estate business including new financing agreements, modification of certain existing loan agreements to extend the maturities and repaid other loans. The commitment presented in Note 22(a) is expected to increase by principal and interest payments up to approximately \$88,600 including construction loans which were not fully drawn with monthly interest payments, and principal maturity dates ranging from one to ten years. Loans are secured by mortgages over the assets and are subject to certain provisions including the payment of upfront interest reserves.

(c) Interests in other entities

Subsequent to August 31, 2020, the Company received funding via the issuance of convertible promissory notes totalling \$7,727 which mature one year after issuance, bear interest at 8% per annum and are convertible at the option of the holder into units of certain limited partnerships.

(d) Share capital

Subsequent to August 31, 2020, the Company repurchased 883,100 common shares pursuant to the NCIB at a cost of \$607,801 and cancelled the majority of common shares in treasury leaving 212,600 common shares held in treasury.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2020. 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(b).

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in net income (loss). Any interest retained by the former subsidiary is measured at fair value when control is lost.

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 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. 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 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. 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.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Consolidation (continued)

ii. 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.

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.

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

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 China, 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.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Revenue recognition (continued)

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.

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 IFRS 16/IAS 17 and non-lease components accounted for under IFRS 15 (Note 29). As described in Note 4(a), as the result of the adoption of IFRS 16 on September 1, 2019, there was no change in accounting for leases by lessors. 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. Financial assets that do not meet the below classifications are classified as fair value through profit or loss.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Financial Instruments (continued)

ii. Classification and subsequent measurement (continued)

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 is 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.

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

The Company applies an expected credit loss (“ECL”) impairment model, which applies to financial assets measured at amortized cost, contract assets, lease receivables, and financial guarantee contracts. The ECL model results 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.

CIBT EDUCATION GROUP INC.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Financial Instruments (continued)

iv. Impairment of non-derivative financial assets (continued)

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.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. 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 assesses the timing of write-offs based on whether there is a reasonable expectation of recovery. Impairment losses related to trade and other receivables are presented within General and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss).

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 net income (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 net income (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 capitalized to the carrying value of the related Investment Properties until such time as the redevelopment of the Investment properties is substantially completed or construction has ceased. All other borrowing costs are recognized in net income (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 from the date of the classification. Such assets are generally measured at the lower of carrying amount and fair value less costs to sell. IFRS requires Investment Properties to continue to be accounted for under the fair value model.

Once classified as held for sale, intangible assets, and property 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 (Loss) 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 remeasurement 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

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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 considered 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 (Loss) 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.

The Company's indefinite life intangible assets 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. Indefinite life intangible assets include accreditations and registrations, brand-names and trade-names, and other education related agreements, and are carried at cost less impairment losses.

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

- 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 SSCC, 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 their estimated useful lives.

CIBT EDUCATION GROUP INC.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Intangible assets and goodwill (continued)

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 Statements of Comprehensive Income (Loss). An impairment loss recognized for goodwill is not reversed in subsequent periods. Management evaluates goodwill for impairment annually as of August 31st unless impairment indicators exist at another reporting date. 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 indefinite 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. To assess 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. To assess 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

Until August 31, 2019, leases in which the Company assumes substantially all risks and rewards of ownership were classified as finance leases. Assets held under finance leases were capitalized at the lease's inception at the lower of fair value of the leased property, or the present value of the minimum lease payments. The corresponding rental obligations, net of finance costs, were included in borrowings as finance lease obligations. Lease payments were apportioned between the liability and finance cost. The finance cost was charged to net income (loss) over the lease period so as to achieve a constant rate of interest on the remaining balance of the liability. The equipment acquired under finance leases was depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases were recognized as an expense on a straight-line basis over the lease term, except where another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed. Lease incentives received were recognized as a liability on execution of operating leases, where applicable. The aggregate benefit of incentives was 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 were consumed.

CIBT EDUCATION GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Leases (continued)

Effective September 1, 2019, the Company adopted IFRS 16 which replaced IAS 17 and related interpretive guidance. The Company applied IFRS 16 using a modified retrospective approach. Accordingly, comparative information presented for the prior period has not been restated and the cumulative effect of initially applying IFRS 16 has been recognized at the date of initial application of September 1, 2019. The new accounting policy is described below, and the impact of the change is described in Note 4(a).

i. Recognition and initial measurement

As a lessee

At the commencement date of a lease, the Company recognizes a right-of-use asset and a lease liability for all leases except leases of low value assets and leases with a duration of 12 months or less.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company determines whether, throughout the period of use, it has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. When the supplier has a substantive right to substitute the asset throughout the period of use, the asset is not identified. The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

i. Recognition and initial measurement as a lessee (continued)

For contracts that contain multiple lease components, the Company allocates the consideration in the contract to each lease component based on their relative stand-alone price. The Company has elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

At the commencement date of a lease, the Company recognizes a lease liability and a right-of-use asset. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate (such as CPI), initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease.

Variable rent payments that are not based on an index or rate, including additional rent for operating costs and taxes and non-recoverable goods and services tax, are recognized as rent expense, within general and administrative expense or direct costs, as incurred. Lease payments for short-term leases and leases of low value assets are recognized as rent expense on a straight-line basis over the lease term.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, increased for:

- lease payments made at or before the commencement of the lease;
- initial direct costs incurred; and
- the estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located,
- less any lease incentives received.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Leases (continued)

ii. Classification and subsequent measurement

Subsequent to the commencement date of the lease, the lease liability is measured at amortized cost using the effective interest method. The lease liability is remeasured by discounting the revised lease payments using a revised discount rate when there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. The lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate when there is a change in the amounts expected to be payable under a residual value guarantee or there is a change in future lease payments resulting from a change in an index or a rate used to determine variable payments. Upon remeasurement of a lease liability, a corresponding adjustment to the right-of-use asset is recognized.

Subsequent to the commencement date of the lease, the Company measures the right-of-use asset at cost, less accumulated depreciation, and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date of the lease to the earlier of the end of the useful life of the underlying asset and the end of the lease term. The Company assesses its right-of-use assets for impairment and accounts for identified impairment losses similar to its assessment of impairment on other property and equipment.

Right-of-use assets that meet the definition of an investment property are classified as investment property and measured at fair value at each reporting date. Changes in fair value during each period are recognized and included in net gains on fair value changes in investment properties in the statement of comprehensive income.

Refundable security deposits are classified as financial assets measured at amortized cost and included in current other receivables or other non-current assets. Tenant improvement allowances are recognized as a reduction in the costs of the associated leasehold improvement assets.

The Company has taken the practical expedient not to assess whether rent concessions arising as a result of COVID-19 are lease modifications. These rent concessions are in the form of rent deferrals and there is no change to the amount recognized in comprehensive income as a result of these changes.

As a lessor

The Company accounts for leases as operating leases and recognizes rental revenues on a straight-line basis over the lease term.

J. Government Grants

Government grants are assistance by government agencies in the form of transfers of resources to an entity in return for past or future compliance with certain conditions related to the operating activities of the entity. Grants from the government are recognized at the fair value where there is reasonable assurance that the grant will be received, and the Company will comply with all attached conditions. Government grants related to costs are deferred, if applicable, and recognized in profit or loss on a systematic basis in the periods in which the expenses are recognized.

K. 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.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

L. 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.

M. Share related items

i. Treasury Shares

Consideration paid for the purchase of treasury shares is recognized directly in equity. The carrying amount of these reacquired shares is presented as a treasury share reserve. If any of these shares are resold, the resulting gains (losses) 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 using 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.

N. Compound Financial Instruments

Compound financial instruments are Canadian denominated convertible debentures and convertible promissory notes held by the Company that can be converted at the option of the holder into common shares of the Company in the case of the debentures and limited partnership units in the case of the convertible promissory notes, when the number of shares or units 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. If the instrument is converted before maturity, any accrued but unpaid interest is paid to the holder, the liability is derecognized and reclassified to equity, and no gain or loss is recognized. If the financial instrument is repaid, the liability is derecognized, and the equity component is unchanged.

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NOTE 28 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. 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 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.

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 consider in pricing a transaction.

P. Income taxes and deferred taxation

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 (Loss) 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 difference can be utilized. Deferred taxes arising from investment property measured at fair value presumes that recovery will be through sale rather than use. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current assets and liabilities.

When there is uncertainty concerning the Company's filing position regarding the tax bases of assets or liabilities, the taxability of certain transactions or other tax-related assumptions, then the Company: (a) considers whether uncertain tax treatments should be considered separately, or as a group, based on which approach provides better predictions of the resolution; (b) determines if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainly based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. Companies are to assume in making this measurement 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 making those examinations.

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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, SSLC and VIC operates English language schools, IRIX conducts web design and advertising services, and GECH invests in and manages education related real estate projects. The Company's corporate operations are also in Canada. Transactions between CIBT China, 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, 2020						
	CIBT (China)	SSCC (Canada)	SSLC/VIC (Canada)	IRIX (Canada)	GECH (Canada)	Corporate (Canada)	Total
Revenues							
Revenues from contracts with customers							
Educational	\$ 2,666	\$ 37,036	\$ 7,173	\$ -	\$ -	\$ -	\$ 46,875
Design and advertising	-	-	-	716	-	-	716
Commissions and referral fees	401	-	-	-	-	-	401
Rental	-	-	-	-	4,009	-	4,009
	3,067	37,036	7,173	716	4,009	-	52,001
Revenues from leases	-	-	-	-	6,007	-	6,007
Revenues from development fees	-	-	-	-	-	4,540	4,540
	\$ 3,067	\$ 37,036	\$ 7,173	\$ 716	\$ 10,016	\$ 4,540	\$ 62,548
Revenues, net of direct costs	\$ 1,256	\$ 22,907	\$ 2,382	\$ 558	\$ 5,266	\$ 4,540	\$ 36,909
Other income (expenses):							
General and administrative	(1,119)	(16,098)	(3,795)	(686)	(2,324)	(3,930)	(27,952)
Depreciation and amortization	(179)	(2,520)	(875)	(25)	(907)	(103)	(4,609)
Share-based payment expense	-	-	-	-	-	(208)	(208)
Interest and other income	196	4,535	1,626	126	2,947	(586)	8,844
Foreign exchange gain (loss)	23	-	-	(4)	-	63	82
Interest expense	-	(904)	(150)	(3)	(6,073)	(1,366)	(8,496)
Finance fees expense and other	-	-	-	-	(53)	381	328
Loss on fair value changes in investment properties	-	-	-	-	(5,730)	-	(5,730)
Impairment of intangibles and goodwill	-	-	(3,556)	-	-	-	(3,556)
Loss on disposal of assets	-	-	(53)	-	-	-	(53)
Income tax recovery (provision), net	19	(1,176)	(259)	(12)	870	248	(310)
Inter-segment transactions	92	(3,523)	2,146	30	64	1,191	-
Net income (loss)	\$ 288	\$ 3,221	\$ (2,534)	\$ (16)	\$ (5,940)	\$ 230	\$ (4,751)

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

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NOTE 29 – SEGMENTED INFORMATION (continued)**Industry and Geographic Segments**

As at August 31, 2020

	CIBT (China)	SSCC (Canada)	SSLC/VIC (Canada)	IRIX (Canada)	GECH (Canada)	Corporate (Canada)	Consolidated
Total assets	\$ 4,367	\$ 44,547	\$ 2,829	\$ 284	\$ 399,048	\$ 1,692	\$ 452,767
Property and equipment	\$ 52	\$ 1,408	\$ 150	\$ 40	\$ 57,466	\$ 10	\$ 59,126
Investment properties	\$ -	\$ -	\$ -	\$ -	\$ 246,327	\$ -	\$ 246,327
Intangible assets	\$ 461	\$ 6,664	\$ 344	\$ -	\$ -	\$ -	\$ 7,469
Goodwill	\$ -	\$ 5,218	\$ 317	\$ -	\$ -	\$ 300	\$ 5,835
Total liabilities	\$ 748	\$ 46,845	\$ 4,555	\$ 394	\$ 216,627	\$ 3,019	\$ 272,188
Non-controlling interests	\$ (31)	\$ -	\$ -	\$ (173)	\$ 129,514	\$ -	\$ 129,310
Capital expenditures	\$ 4	\$ 368	\$ 17	\$ 11	\$ 76	\$ -	\$ 476

CIBT EDUCATION GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

August 31, 2020

NOTE 29 – SEGMENTED INFORMATION (continued)
Industry and Geographic Segments

	Year ended August 31, 2019						Total
	CIBT (China)	SSCC (Canada)	SSLC/VIC (Canada)	IRIX (Canada)	GECH (Canada)	Corporate (Canada)	
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
	<u>3,455</u>	<u>35,433</u>	<u>13,865</u>	<u>862</u>	<u>7,359</u>	<u>-</u>	<u>60,974</u>
Revenues from leases	-	-	-	-	5,676	-	5,676
Revenues from development fees	-	-	-	-	-	4,347	4,347
	<u>\$ 3,455</u>	<u>\$ 35,433</u>	<u>\$ 13,865</u>	<u>\$ 862</u>	<u>\$ 13,035</u>	<u>\$ 4,347</u>	<u>\$ 70,997</u>
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)
Depreciation and 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)	-	-	(6,500)	(370)	(7,011)
Finance fees expense and other	-	-	-	-	(10)	427	417
Impairment of intangibles and goodwill	-	(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)	<u>\$ 236</u>	<u>\$ 1,920</u>	<u>\$ 1,037</u>	<u>\$ 4</u>	<u>\$ 13,477</u>	<u>\$ (1,742)</u>	<u>\$ 14,932</u>

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

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

August 31, 2020

NOTE 29 – SEGMENTED INFORMATION (continued)

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

--- END OF FINANCIAL STATEMENTS ---