



**CIBT EDUCATION GROUP INC.**

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

**FOR THE QUARTER ENDED MAY 31, 2015**

**CIBT EDUCATION GROUP INC.**  
(the “Company”)  
**MANAGEMENT’S DISCUSSION & ANALYSIS**  
**FOR THE QUARTER ENDED MAY 31, 2015**

The following Management’s Discussion & Analysis (“**MD&A**”) is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the consolidated financial statements and related notes for the quarter ended May 31, 2015, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). The comparatives in this MD&A have been presented in accordance with IFRS. Additional information about the Company, including its annual information form, are available under the Company’s profile on SEDAR ([www.sedar.com](http://www.sedar.com)).

This MD&A contains certain forward-looking statements, which relate to future events or the Company’s future performance that include terms such as “will”, “intend”, “anticipate”, “could”, “should”, “may”, “might”, “expect”, “estimate”, “forecast”, “plan”, “potential”, “project”, “assume”, “contemplate”, “believe”, “shall” and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Company’s control, which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These forward-looking statements speak only as of the date of this MD&A, and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities law.

All figures are in Canadian dollars unless otherwise noted. This MD&A has been prepared as of July 14, 2015. In this MD&A, the following terms have the meanings shown:

“**Fiscal 2015**” means the fiscal year ending August 31, 2015  
“**Fiscal 2014**” means the fiscal year ending August 31, 2014  
“**First Quarter of Fiscal 2015**” means the three months ended November 30, 2014  
“**Second Quarter of Fiscal 2015**” means the three months ended February 28, 2015  
“**Third Quarter of Fiscal 2015**” means the three months ended May 31, 2015  
“**Fourth Quarter of Fiscal 2015**” means the three months ended August 31, 2015  
“**First Quarter of Fiscal 2014**” means the three months ended November 30, 2013  
“**Second Quarter of Fiscal 2014**” means the three months ended February 28, 2014  
“**Third Quarter of Fiscal 2014**” means the three months ended May 31, 2014  
“**Fourth Quarter of Fiscal 2014**” means the three months ended August 31, 2014

**NON-IFRS FINANCIAL MEASUREMENTS**

Earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) are non-IFRS financial metrics used in this Management’s Discussion & Analysis. These non-IFRS financial measurements do not have any standardized meaning as prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other issuers. Management uses EBITDA metrics to measure the profit trends of the business units and segments in the consolidated group since it eliminates the effects of financing decisions. Certain investors, analysts and others utilize these non-IFRS financial metrics in assessing the Company’s financial performance. These non-IFRS financial measurements have not been presented as an alternative to net loss or any other financial measure of performance prescribed by IFRS. Reconciliation of the non-IFRS measure has been provided throughout this MD&A.

**Date of Report – July 14, 2015**

**CIBT EDUCATION GROUP INC.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**FOR THE QUARTER ENDED MAY 31, 2015**

**NATURE OF BUSINESS**

The Company is an education management company headquartered in Vancouver, British Columbia, Canada that delivers advanced education via traditional face to face teaching and interactive technology to the global education market. With its partners and investors, both international and domestic, the Company is diversifying into affordable rental apartments targeted specifically at students and young adults. The Company is listed on the Toronto Stock Exchange (TSX) in Canada under the trading symbol "MBA" and quoted on the OTCQX-International under the trading symbol "MBAIF".

The Company's operating entities are as follows:

<b>Legal / Operating Entity</b>	<b>Business Description</b>
CIBT School of Business & Technology Corp. ("CIBT" or "CIBT China")	Chinese Associate Degree provider offering automotive technical training, English teacher preparation, ESL, and accounting.
Sprott-Shaw College ("SSDC")	Private career and technical training college offering diplomas and certificates in health care, tourism, hospitality, business, administrative, and international studies.
Acsenda School of Management (a division of SSDC)	Degree-granting business management school with University level programs.
Global Education Alliance Inc. ("GEA")	International students' referral services for elite kindergarten, primary, secondary schools and universities in North America.
Global Education City Holdings Inc. ("GEC")	Investment holding and management company with focus on real estate projects in Canada with education and technology sector focus such as student housing and long stay apartments for visiting technology workers.
IRIX Design Group Inc. ("IRIX")	Design and advertising company.

The Company's primary business units consist of CIBT (including GEA), SSDC, IRIX, GEC and Corporate (head office) functions.

The Company and its subsidiary, CIBT, formerly owned KGIC Business College (2010) Corp. and KGIC Language College (2010) Corp. (collectively "KGIC"). KGIC is an English language college based in Canada. On August 31, 2013, the Company and CIBT entered into an agreement to sell KGIC, and accordingly the operations of KGIC have been classified as a discontinued operation in the Company's financial statements. The sale of KGIC closed on September 17, 2013.

**Industry Growth Prospect**

International education is an \$8 billion industry in Canada that is growing at an 8% compounded annual growth rate. The industry created 86,570 jobs and generated \$455 million in government tax revenues in 2011 according to statistics published by Citizenship and Immigration Canada. The Canadian government is ramping up to become one of the top 5 largest destination countries in the world for foreign students behind the US and the UK. According to a Federal government news release, the quota of international students allowed admission into Canada is expected to climb 80% in 8 years, from 250,000 in 2014 to 450,000 by 2022. Out of this large market, Metro Vancouver is expected to continue to have one of the largest market shares in Canada.

With the mandate of educating domestic students via Sprott Shaw College and Acsenda School of Management, while recruiting foreign students to study at its North American campuses and partner schools, and providing them with an enhanced learning experience and employment opportunities, the Company is greatly advantaged by the industry's high growth rate and favourable government policies. The Company has the infrastructure and experience to capitalize on emerging market growth with minimal emerging market risk.

The Company's long term presence in the global education markets allows it to tap into this market to recruit foreign students to North America. According to the latest statistics from China's Ministry of Education, there were 1.27 million Chinese students studying abroad as at the end of 2010, with 285,000 beginning their studies abroad each year. The high growth in demand from students in the emerging markets to study in countries like Canada, and the Canadian government's support in attracting more foreign students, present the Company with perfect opportunities to use its infrastructure to bridge this gap.

In addition to the fast growing education demand from international students, student housing for international students is an estimated \$1.12 billion market in British Columbia. The Company is developing and providing serviced apartments and hotels throughout Metro Vancouver to domestic and international students, and expects this education real estate business to significantly enhance our operations and profitability.

## **Outlook for Fiscal 2015**

The Company is expecting to see strong performance from SSDC as it has finished curriculum updates, streamlined operations, and has grown the international students market. SSDC has also opened a new School of Trades in Burnaby, BC in the recent fiscal quarter to offer full construction electrician training. As well, the Province of British Columbia is expected to complete changes to its requirements and provide more certainty. Ascenda School of Management has completed its accreditation review and received Ministry approval for license renewal for another five years.

GEA, a subsidiary of the Company, has signed over 100 agreements to recruit foreign students for public and private schools in the kindergarten, primary, secondary, career colleges and university sectors. GEA has grown substantially from a start up to an established business with a high profit margin. GEA is expecting to add more partner schools to widen its coverage while demand for its services and expertise is increasing rapidly from foreign students wishing to study in North America.

The flow of foreign students enrolled in the Company's schools, as well as 100+ alliance schools serviced by GEA, will be directed to the Company's subsidiary, GEC, to satisfy students' accommodation needs. GEC was established as a student housing investment and management arm. Student housing for foreign students will be built under the oversight of, and will be managed by, GEC, adding a further downstream service for international students. Memorandum of Understanding and/or Purchase and Sale Agreements have been signed with Vancouver developers to build an education super centre attached with a student hotel, and student housing apartments in Metro Vancouver nearby Skytrain (subway) stations. In addition, the Company has received many proposals from real estate developers offering their lands, and proposals from schools wishing to establish arrangements with GEC so that the schools can better service their students' accommodation needs. The Company is assessing the viability of these potential sites and working closely with various public and private schools, colleges and universities to fulfill their needs.

The aggregated construction budget for these projects is approximately \$1 billion over several years. The Company is in negotiation with accredited and institutional investors to co-invest in each project in partnership with GEC, thereby reducing the amount of capital required from the Company. Commercial financing will be sought in lieu of diluting GEC's ownership in each project, and vendor financing is also expected in some cases. These projects will create approximately 5,000 beds, and will also create approximately 100,000 square feet of commercial office space available for lease to educational institutions and education service companies from around the world wishing to establish a physical presence at North America's first education super centre.

Based upon data from 2013, approximately 112,800 foreign students are living in British Columbia contributing over \$2.3 billion in tuition revenue to the British Columbia economy, excluding housing and other living expenses. Total housing revenue generated by these foreign students is estimated to be over \$1.1 billion per year in BC, an average of \$10,000 per student per year and this amount is increasing due to rising property prices. The Company has access to 20,000 international students studying in Metro Vancouver, through GEA's 100+ collaborative arrangements with various public and private schools, and its wholly owned schools in Canada and Asia. These foreign students are each paying approximately \$10,000 to \$12,000 per year for their housing needs, totaling over \$200 million in potential housing revenue per year for the Company to capture over time. The Company plans to build student centric facilities over a 5-year period to accommodate up to 5,000 foreign students, which accounts for only a small fraction of the anticipated total foreign student population of approximately 200,000 by 2019 in Metro Vancouver. The majority of the schools in Metro Vancouver do not provide student housing for their students, and those that offer student housing do not provide their housing service to students of competing schools. The Company expects to utilize its 22 years of experience in the global education sector and its international network to use this opportunity to operate a profitable student housing business thus complementing the Company's core education business, by bringing vertically integrated services to international students and enhanced value to shareholders. The education real estate business is expected to become a catalyst for top and bottom line growth for the Company.

## DISCONTINUED OPERATIONS AND SALE OF KGIC

Effective August 31, 2013, the Company and its subsidiary, CIBT School of Business & Technology Corp., entered into an agreement to sell to Loyalist Group Limited ("Loyalist"), 100% of the issued and outstanding common shares of the Company's respective subsidiaries, KGIC Business College (2010) Corp. and KGIC Language College (2010) Corp., who collectively make up the KGIC operations.

The total purchase price for this transaction was \$13,500,000 of which \$9,500,000, subject to certain adjustments, was due upon closing and a further \$4,000,000 was secured by way of a non-interest bearing promissory note issued by Loyalist in favour of the Company due six months after closing. The amount of the promissory note could be reduced to the extent of certain adjustments contemplated within the agreement and could be extended to 270 days from the original closing as may be required to finalize these adjustments. Further, in connection with the transaction, upon closing Loyalist assumed and paid all amounts owing by KGIC to the Company and its other subsidiaries.

The rationale for this transaction was based on the following factors: a) competitive nature of the English Second Language sector, b) low barrier to entry, c) public institutions entering into the ESL sector, d) short term program, e) eroding margin, f) increased regulatory scrutiny, and g) most importantly, the extraordinary high valuation that was offered to the Company.

## SUMMARY OF QUARTERLY RESULTS

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

Selected Financial Information	Quarter Ended May 31, 2015 (Third Quarter)	Quarter Ended February 28, 2015 (Second Quarter)	Quarter Ended November 30, 2014 (First Quarter)	Quarter Ended August 31, 2014 (Fourth Quarter)
Total revenues – Continuing operations	\$7,968,268	\$8,307,517	\$7,123,976	\$5,517,622
Net income (loss)	(\$762,419)	\$3,457,596	(\$671,744)	(\$159,147)
Income (loss) per share	(\$0.01)	\$0.05	(\$0.01)	(\$0.00)

Selected Financial Information	Quarter Ended May 31, 2014 (Third Quarter)	Quarter Ended February 28, 2014 (Second Quarter)	Quarter Ended November 30, 2013 (First Quarter)	Quarter Ended August 31, 2013 (Fourth Quarter)
Total revenues – Continuing operations	\$10,146,824	\$7,262,141	\$7,989,567	\$9,513,274
Net income (loss)	\$924,490	(\$876,426)	\$5,817,359	\$335,998
Income (loss) per share	\$0.01	(\$0.01)	\$0.09	\$0.01

Total revenues in the Third Quarter of Fiscal 2015 have decreased when compared to the Third Quarter of Fiscal 2014. The reduction in revenues was primarily a result of the Company not receiving development fees in connection with new real estate development projects in the Third Quarter of Fiscal 2015. The timing of receipt of development fees is dependent upon the timing of completion of negotiations of each real estate development project. A total of \$2,646,000 in development fees were recognized as revenues during the Third Quarter of Fiscal 2014. Total revenues in the Third Quarter of Fiscal 2015 have decreased when compared to the Second Quarter of Fiscal 2015 for the same reason as described above. Total revenues in the Third Quarter of F2015 is comparable to total revenues in the First Quarter of Fiscal 2015 since both these quarters had no development fee revenues. Rental revenues of \$296,295 were generated from GEC Project 3 in the Third Quarter of Fiscal 2015 (total of \$377,864 in rental revenues since acquisition of GEC Property 3 on January 29, 2015).

Total revenues in the Fourth Quarter of Fiscal 2014 appears low when compared to other quarters in the current fiscal year and the previous fiscal year. Total revenues in the Fourth Quarter of Fiscal 2014 included a write-down in development fees of \$1,024,168 which was due to the Company delaying the recognition of the \$1,024,168 development fees over the future quarters in Fiscal 2015. If this \$1,024,168 was excluded from the total revenues of Fiscal 2014, then total revenues would have been \$6,541,790 (compared to \$7,123,976 for the First Quarter of Fiscal 2015), a more comparable number and showing a slight improvement in the First Quarter of Fiscal 2015.

A net loss of \$762,419 was incurred in the Third Quarter of Fiscal 2015 compared to a net income of \$924,490 in the Third Quarter of Fiscal 2014. The development fee revenues of \$2,646,000 recognized in the Third Quarter of Fiscal 2014 contributed to the net income figure in that quarterly period whereas no development fee revenues were recognized in the Third Quarter of Fiscal 2015.

The net income of \$3,457,596 in the Second Quarter of Fiscal 2015 was comprised primarily of \$3,287,857 in fair market value appreciation in the value of the Company's investment property as at February 28, 2015. The Company acquired the real estate for GEC Project 3 on January 29, 2015 at a cost far less than the current market value. The Company chose to account for the investment property using a fair value model, and accordingly recognized the appreciation as a gain in the current period.

## OVERALL PERFORMANCE

Selected Financial Information - Three Months Ended	Quarter Ended May 31, 2015	Quarter Ended May 31, 2014	Absolute Change	Percentage Change
Total revenues	\$7,968,268	\$10,146,824	(\$2,178,556)	-21.47%
Total revenues net of direct costs – Overall (%)	60.53%	64.60%	-4.08%	-6.31%
Educational revenues – CIBT	\$572,622	\$616,473	(\$43,851)	-7.11%
Educational revenues net of direct costs – CIBT (%)	37.88%	37.56%	0.32%	0.86%
Educational revenues – SSDC	\$6,587,644	\$6,451,382	\$136,262	2.11%
Educational revenues net of direct costs – SSDC (%)	62.62%	64.86%	-2.24%	-3.45%
Design and advertising revenues – IRIX	\$330,144	\$281,350	\$48,794	17.34%
Design and advertising revenues net of direct costs – IRIX (%)	69.93%	59.10%	10.83%	18.32%
Commissions and referral fees – GEA	\$181,563	\$151,619	\$29,944	19.75%
Commissions and referral fees net of direct costs – GEA (%)	50.31%	19.56%	30.74%	157.17%
Rental revenues – GEC	\$296,295	\$0	\$296,295	100.00%
Rental revenues net of direct costs – GEC (%)	53.44%	0.00%	53.44%	100.00%
Development fees – Corporate	\$0	\$2,646,000	(\$2,646,000)	-100.00%
General and administrative expenses	\$4,662,263	\$4,857,668	(\$195,405)	-4.02%
Gain (loss) on fair value changes in investment properties	\$0	\$0	\$0	-
Income (loss) – Continuing operations	(\$762,419)	\$1,311,851	(\$2,074,270)	-158.12%
Income (loss) – Discontinued operations	\$0	(\$387,361)	\$387,361	100.00%
Net income (loss)	(\$762,419)	\$924,490	(\$1,686,909)	-182.47%
EBITDA [non-IFRS] – Continuing operations	(\$73,061)	\$1,645,710	(\$1,718,771)	-104.44%

For the Third Quarter of Fiscal 2015, total revenues decreased 21.47% from \$10,146,824 to \$7,968,268 compared to the same quarter in the previous year. This decrease in revenues was primarily a result of no development fee revenues relating to the GEC real estate development projects in the current quarter. In the Third Quarter of Fiscal 2014, there was \$2,646,000 of development fee revenues recognized in that quarter. It is anticipated that future quarters in Fiscal 2016 will continue to see development fee revenues from existing GEC projects and new GEC projects. GEC generated \$296,295 of rental revenues from GEC Project 3 during the current quarter. There were marginal changes in the Company's other business units during the Third Quarter of Fiscal 2015 when compared to the same quarter in the prior year: CIBT had a small decrease (\$43,851) in revenues; SSDC had a slight increase (\$136,262) in revenues; IRIX had a \$48,794 increase in revenues; and GEA generated a \$29,944 increase in revenues. General and administrative expenses decreased marginally by 4.02% over the same period last year as a result of extensive cost-cutting measures at SSDC.

The following reconciles the net income (loss) to EBITDA (non-IFRS):

	Quarter Ended May 31, 2015	Quarter Ended May 31, 2014
Income (loss) – Continuing operations	(\$762,419)	\$1,311,851
Add: interest on long-term debt	\$437,732	\$17,152
Add: income tax (recovery) provision	\$83	\$1,820
Add: depreciation and amortization	\$251,543	\$314,887
EBITDA [non-IFRS] – Continuing operations	(\$73,061)	\$1,645,710

In the Third Quarter of Fiscal 2015, the Company generated an EBITDA loss of \$73,061 from continuing operations compared to the same period last year. The decrease in EBITDA is attributable to there being no development fee revenues in the Third Quarter of Fiscal 2015, whereas there was \$2,646,000 of development fee revenues in the Third Quarter of Fiscal 2014. The timing of receipt of development fees is dependent upon the timing of completion of negotiations of each real estate development project.

## RESULTS OF OPERATIONS

Selected Financial Information	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2015	Nine Months Ended May 31, 2014
Total revenues	\$7,968,268	\$10,146,824	\$23,399,761	\$25,398,532
Educational revenues – CIBT	\$572,622	\$616,473	\$1,819,204	\$2,071,713
Educational revenues net of direct costs – CIBT (%)	37.88%	37.56%	40.61%	43.47%
Educational revenues – SSDC	\$6,587,644	\$6,451,382	\$18,832,410	\$19,144,966
Educational revenues net of direct costs – SSDC (%)	62.62%	64.86%	61.45%	61.63%
Design and advertising revenues – IRIX	\$330,144	\$281,350	\$850,189	\$835,921
Design and advertising revenues net of direct costs – IRIX (%)	69.93%	59.10%	71.39%	56.35%
Commission revenues – GEA	\$181,563	\$151,619	\$387,774	\$699,932
Commission revenues net of direct costs – GEA (%)	50.31%	19.56%	40.83%	34.17%
Rental revenues – GEC	\$296,295	\$0	\$377,864	\$0
Rental revenues net of direct costs – GEC (%)	53.44%	0.00%	43.35%	0.00%
Development fees – Corporate	\$0	\$2,646,000	\$1,132,320	\$2,646,000
General and administrative expenses	\$4,662,263	\$4,857,668	\$14,206,742	\$15,045,058
Share-based payment expense	\$7,198	\$2,218	\$14,463	\$11,894
Foreign exchange gain (loss)	\$6,880	(\$27,931)	\$217,133	\$87,831
Gain (loss) on fair value changes in investment properties	\$0	\$0	\$3,287,857	\$0
Income tax recovery (provision) – net	(\$83)	(\$1,820)	(\$3,492)	(\$6,948)
Income (loss) – Continuing operations	(\$762,419)	\$1,311,851	\$2,023,433	(\$603,510)
Income (loss) – Discontinued operations	\$0	(\$387,361)	\$0	\$6,468,933
Net income (loss)	(\$762,419)	\$924,490	\$2,023,433	\$5,865,423
Income (loss) per share	(\$0.01)	\$0.01	\$0.03	\$0.09
Total assets	\$73,666,430	\$38,615,033	\$73,666,430	\$38,615,033
Long-term liabilities	\$24,168,053	\$281,139	\$24,168,053	\$281,139

CIBT's revenues for the Third Quarter of Fiscal 2015 decreased by \$43,851 (7.11% decrease) compared to the Third Quarter of Fiscal 2014. Revenues for the nine months ended May 31, 2015 decreased by 12.19% (\$252,509 decrease) when compared to the same period last year. This was due to the phasing out of massive training programs, reflecting a strategic change in the Company's business model, and the closing down of two ESL centres following the sale of KGIC. CIBT's operations are gradually being replaced by GEA's operations.

SSDC's revenues for the Third Quarter of Fiscal 2015 increased by \$136,262 (2.11% increase) compared to the Third Quarter of Fiscal 2014. SSDC's revenues for the nine months ended May 31, 2015 decreased by 1.63% (\$312,556 decrease) compared to the same period in the prior year. Certain industry events during Fiscal 2014 negatively impacted the Education sector. These events include the following: (1) the strike held by Canadian Immigration and Visa office workers affected and delayed the processing of student visas; (2) the Canadian Education Industry is going through regulatory changes by merging and creating new regulatory bodies, which has resulted in much uncertainty for education institutions; and (3) the elimination of Post Graduate Work Permits for private schools caused many overseas agents to send students to other countries. With regulatory changes expected to be finalized in calendar 2015, and the reinstatement of Post Graduate Work Permit, Fiscal 2015 should see results normalizing and improving. This is evidenced by the improvement in revenues of \$136,262 during the Third Quarter of Fiscal 2015.

GEA's revenues for the Third Quarter of Fiscal 2015 increased by \$29,944 (19.75% increase) compared to the Third Quarter of Fiscal 2014. GEA's revenues for the nine months ended May 31, 2015 decreased by 44.60% (\$312,158 decrease) when compared to the same period last year. There were non-recurring revenue streams (\$156,154) in Fiscal 2014 which accounted for the majority of the decrease. In addition, the industry changes that affected SSDC's revenues have affected GEA's revenues since overseas agents are choosing other countries over Canada. However, as in the case with SSDC, GEA's revenues are expected to improve in Fiscal 2015 once the industry changes are finalized.

Corporate operations did not generate any development fee revenues in the Third Quarter of Fiscal 201, whereas \$2,646,000 of development fee revenues were recognized in the same period last year. Corporate operations managed to generate \$1,132,320 of development fee revenues for the nine months ended May 31, 2015 compared to \$2,646,000 for the nine months ended May 31, 2014. This relatively new revenue stream for the Company is a result of efforts by the Company to plan and organize the building of student centric service apartments for rental to domestic and foreign students studying in the Lower Mainland region of British Columbia and to provide various services to the students and their families. There are three new projects that are actively under negotiation.

General and administrative expenses for the Third Quarter of Fiscal 2015 decreased by \$195,405 (4.02% decrease) compared to the Third Quarter of Fiscal 2014. The decrease was caused primarily by cost-cutting measures implemented in SSDC's operations. General and administrative expenses for the nine months ended May 31, 2015 decreased by \$838,316 (5.57% decrease) when compared to the same period last year. Cost control measures were implemented, particularly in SSDC, during Fiscal 2014, and the improved cost reductions are continuing into Fiscal 2015. Operating expenses as a percentage of total revenues (excluding the development fee revenues since the large dollar amount of development fee revenue skews the analysis) have decreased by 6% compared to the same period in the prior year (64% for the nine months ended May 31, 2015 compared to 66% for the nine months ended May 31, 2014).

Gain on fair value changes in investment properties of \$3,287,857 that was recognized in the Second Quarter of Fiscal 2015 relates to the real estate ("GEC Property 3") for GEC Project 3. The property was acquired on January 29, 2015 at a cost that was lower than the current fair market value, and valuation standards under IFRS allowed the Company to record the increase in value to fair value as at February 28, 2015. The Company determined the fair value of the property at February 28, 2015 to be \$32,600,000 based on a variety of factors including management's knowledge of the property and recent market transactions in the area. Management intends to obtain a valuation as part of its fiscal 2015 year end. At February 28, 2015, a fair value gain of \$3,287,857 was recognized and recorded.

Total assets and long-term liabilities have increased compared to the same period last year due to the real estate development projects that the Company recorded in Fiscal 2015. Associated with GEC Project 3, the investment property was valued at \$32,600,000 and a related mortgage was recorded at \$23,316,692 as part of long-term debt. The long-term debt is secured against the real property.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's operations have been financed primarily through internal cash flow and equity financing in the form of private placements.

The following table compares selected financial condition information as at May 31, 2015 to August 31, 2014:

Selected Financial Condition Information	May 31, 2015	August 31, 2014	Dollar Change	Percentage Change
Cash and cash equivalents	\$2,382,415	\$2,706,229	(\$323,814)	-11.97%
Short-term investments	\$35,616	\$2,118,333	(\$2,082,717)	-98.32%
Accounts receivable	\$8,316,779	\$7,323,999	\$992,780	13.56%
Deferred educational revenue	\$10,545,214	\$9,831,156	\$714,058	7.26%
Finance lease	\$711,801	\$666,723	\$45,078	6.76%
Long-term debt	\$23,497,465	\$450,000	\$23,047,465	5121.66%
Working capital surplus (deficit)	(\$30,402,869)	(\$3,780,054)	(\$26,622,815)	-704.30%
Shareholders' equity	\$18,357,608	\$18,394,123	(\$36,515)	-0.20%



Cash and cash equivalents have decreased by 11.97% and short-term investments have decreased by 98.32%. The Company has been using its cash and short-term investment resources to invest in the real estate development projects and for expenditures to support the various projects.

Accounts receivable and deferred educational revenue have both increased by 13.56% and 7.26% respectively, reflecting strong enrolment for the Company's educational business that will be seen in the coming quarters when tuition fees are collected, and classes are delivered and revenues recognized.

Long-term debt increased by \$23,047,465 which is a result of the mortgage debt on the investment property. The acquisition of GEC Property 3 was financed by mortgage debt from a third-party financier. This mortgage is due in March 2016 and bears interest for the first year at the greater of: 6.95% per annum and the HSBC prime plus 3.95%, with interest at 15% after the first year.

The Company's working capital has declined by \$26,622,815 primarily as a result of the mortgage debt on GEC Property 3 being classified as current liabilities since the amount is technically due in March 2016. It is anticipated that the mortgage debt will be re-financed at conventional bank rates in February 2016, although there can be no assurance that this will be achieved.

The following table details the Company's material contractual obligations as at May 31, 2015:

	Not later than one year	Later than one year and not later than five years	Later than five years	Total
Accounts payable and accrued liabilities	\$ 4,754,109	\$ -	\$ -	\$ 4,754,109
Provisions	43,980	-	-	43,980
Income taxes payable	174,524	-	-	174,524
Finance leases	41,213	670,588	-	711,801
Long-term debt	23,497,465	-	-	23,497,465
	<u>\$ 28,511,291</u>	<u>\$ 670,588</u>	<u>\$ -</u>	<u>\$ 29,181,879</u>

## 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. The Company had cash and cash equivalents of \$2,382,415 at May 31, 2015 (August 31, 2014 – \$2,706,229) and short-term investments of \$35,616 at May 31, 2015 (August 31, 2014 – \$2,118,333). Total cash and cash equivalents and short-term investments totaled \$2,418,031 as at May 31, 2015 (August 31, 2014 – \$4,824,562). In addition, the Company has an un-utilized demand operating credit facility of \$1,500,000. Total cash resources including operating credit facility as at May 31, 2015 was \$3,918,031. The Company could look to capital financing which it has successfully raised in the past; however, there is no assurance that such financing will be available on favourable terms or at all. The Company is currently in the process of closing a \$2,000,000 non-brokered private placement. Management prepares budgets and cash forecasts to ensure that the Company has sufficient funds to fulfill its financial obligations. Although the Company is currently in a working capital deficit position, Management believes the Company has sufficient funds for the foreseeable future.

## CAPITAL OUTFLOW RESTRICTIONS IN CHINA

Capital control exists in the People's Republic of China. China still has 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 percent of profits from their China-based operations. A portion (at least 10 percent for Wholly Owned Foreign Entities) must be placed in a reserve account.

As of May 31, 2015, there was no restricted amount in reserve. This reserve is capped at 50 percent 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.

## TRANSACTIONS WITH RELATED PARTIES

Significant transactions between the Company and the following related parties:

	May 31, 2015	August 31, 2014
Accounts receivable - Weifang University (1)	\$ 3,511,178	\$ 3,600,878
Accounts payable - Weifang University (1)	\$ 194,652	\$ 782,854
Due to officers, employees, directors and non-arm's length investors (2)	\$ 1,361,713	\$ 381,156
Due from officers, employees, directors and non-arm's length investors (3)	\$ 835,000	\$ 835,000

- 1) CIBT has a business venture with Weifang University with a 60% interest in Beihai College. Beihai College is a Chinese Government approved college which has been in operation since 2002. Effective July 1, 2007, the Chinese Government implemented a new cash management policy affecting Beihai College. The tuition fees of Beihai College are required to be directly remitted to the local Chinese Government when tuition fees are received, and the funds are held by the Chinese Government under the account of Weifang. Beihai College can receive funds for its operations from Weifang on an as-needed basis up to the amount of the tuition fees collected.
- 2) As of May 31, 2015, the amount due to officers, employees, directors and non-arm's length investors is comprised of \$1,363 (August 31, 2014 – \$41,377) due to officers and directors of the Company, \$167,150 (August 31, 2014 – \$164,779) due to the President of IRIX, \$248,200 (August 31, 2014 – \$NIL) due to Investor 1 of GEC Project 1 development, \$175,000 (August 31, 2014 – \$175,000) due to Investor 2 of GEC Project 2 development, and \$770,000 (August 31, 2014 – \$NIL) due to Investor 3 and the third-party investor of GEC Project 3 development. The \$1,363 due to officers and directors of the Company is non-interest bearing and has no fixed terms of repayment. The \$167,150 due to the President of IRIX is non-interest bearing and has no fixed terms of repayment. The \$248,200 due to Investor 1 is non-interest bearing and has no fixed terms of repayment. The \$175,000 due to Investor 2 is non-interest bearing and has no fixed terms of repayment. The \$770,000 due to Investor 3 and the third-party investor is non-interest bearing and has no fixed terms of repayment. Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.
- 3) As at May 31, 2015, \$835,000 (August 31, 2014 – \$835,000) was due from Investor 2 in GEC Project 2 development. Amounts due are non-interest bearing with no set terms of payment and will be repaid through additional funding of GEC Project 2 LP by Investor 2.

During the nine month period ended May 31, 2015, the Company and its subsidiaries incurred a total of \$529,265 (nine month period ended May 31, 2014 – \$537,265) for management fees and salaries paid to certain directors and officers employed by the Company and its subsidiaries.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's financial statements are prepared in accordance with IFRS, and the Company's significant accounting policies are disclosed in Note 2 of the consolidated financial statements for the year ended August 31, 2014. The following accounting policies are of particular importance in the presentation of the Company's financial position, financial performance and cash flows, and which require the application of significant judgment and estimates by management.

### Revenue Recognition

The Company recognizes revenue when the amount of revenue can be reliably measured, if it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. Revenue is measured at the fair value of the consideration received or receivable. The primary sources of the Company's revenues are as follows:

#### (a) Educational programs and services

Tuition fees (net of discounts) are generated from the educational programs and services offered by CIBT and SSDC. Tuition is paid in advance and is initially recorded as deferred revenue. Tuition revenue for educational programs and services is recognized proportionately as they are delivered, and is reported net of scholarships, business taxes and related surcharges, and tuition refunds. 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.

(b) Revenue sharing arrangement with education service providers

One of the Company's subsidiaries, CIBT, 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 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.

(c) Design and advertising

IRIX recognizes revenue for services provided using the percentage-of-completion method when the contract revenues, contract costs to complete and the stage of contract completion at the end of the reporting period can be measured reliably and when the contract costs can be identified and measured reliably so that actual contract costs incurred can be compared with prior estimates, and the economic benefits associated with the transaction will flow to IRIX.

(d) Commissions and referral fees

CIBT has agreements with various private schools in North America to recruit students from overseas (primarily in China) for the primary and secondary private school sector in North America. CIBT is paid commissions and referral fees by the private schools for recruiting students that are accepted into and start the school's programs in North America. Commissions and referral fees are paid to CIBT only when the student can no longer obtain a refund on tuition fees paid to the private school. Commissions and referral fees are recognized as revenue by CIBT when the student commences study and has passed the full refund policy of the private school.

(e) Development fees

The Company earns fees in connection with certain real estate development activities. The services provided by the Company include, but are not limited to, land identification and acquisition, preparation of financial models, market analysis, development of investment structure and engagement of construction consultants.

## **Investment Properties**

A property is determined to be an investment property when it is held either to earn rental income or for capital appreciation, rather than for the use in the production of supply for services or for administrative purposes for sale in the ordinary course of business. Investment properties are measured initially at cost, including transaction costs except where the investment property is purchased as part of a business combination. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in fair value of investment properties are including in profit or loss in the period in which they arise. Fair value is determined based on available market evidence at the balance sheet 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.

Management uses judgement in determining if asset acquired meet the definition of investment property or owner occupied property. In cases where optional ancillary services may be available in addition to and separate from the rental of units, Management must assess if those ancillary services are insignificant to the business as a whole to determine classification.

The Company determines the fair value of each investment property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions less future cash flows relating to such current and future leases. Judgement is applied in determining the extent and frequency of independent appraisals and valuations.

## **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.

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

Finite life intangible assets, which include agreements and contracts, curriculum, foreign cooperative agreements, and agency fees are carried at cost less accumulated amortization and impairment losses. The Company capitalizes direct costs incurred in developing programs and curriculums for new courses as intangible assets with finite life. These costs are amortized to direct educational cost on a straight-line basis over the expected life of the course (ranging from three months to 48 months) 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 SSDC, 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 instruction period for the student to match with the tuition fee revenues which are within a year.

Amortization is calculated over periods ranging from less than one year to fifteen years on a straight-line basis, being their estimated useful lives. The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate the carry value may not be recoverable as described under "Impairment of intangible assets and property and equipment" below.

### **Impairment of Intangible Assets and Property & Equipment**

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs of disposal or its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **Foreign Currency**

Functional currency is the currency of the primary economic environment in which an entity operates. These consolidated financial statements are presented in Canadian dollars.

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).

### **Share-Based Payments**

The Company grants stock options to certain directors and employees to acquire shares in the common stock of the Company in accordance with the terms of the Company's stock option plan. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured for each tranche at grant date and is recognized on a graded-vesting basis over the period during which the options vest.

The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted and management's estimate of forfeitures and expected volatility based on historical volatility. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

## Income Taxes

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

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

## ACCOUNTING STANDARDS DEVELOPMENT

### New standards not yet adopted

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

In the annual period beginning September 1, 2018, the Company will be required to adopt IFRS 9, *Financial Instruments*, which is the result of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Management is evaluating any potential impact of the standard.

On May 12, 2014, the IASB issued amendments to IAS 38, *Intangible Assets* ("IAS 38"). The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The Company intends to adopt the amendments to IAS 38 in its consolidated financial statements for the annual period beginning on September 1, 2016. Management is currently evaluating the impact that this standard will have on the consolidated financial statements.

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). This standard sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous revenue standards: IAS 18, Revenue and IAS 11, Construction Contracts, and the related interpretations on revenue recognition: IFRIC 13, Customer Loyalty Programs, IFRIC 25, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. This standard is effective from January 1, 2017. Earlier application is permitted. Management is currently evaluating the impact that this standard will have on the consolidated financial statements.

## FINANCIAL INSTRUMENTS

### Measurement - initial recognition

On initial recognition, all financial assets and liabilities are 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"). The directly attributable transaction costs of financial assets and liabilities classified as at FVTPL are expensed in the period in which they are incurred.

### Classification and measurement - subsequent to initial recognition

Subsequent measurement of financial assets and liabilities depends on the classifications of such assets and liabilities as follows:

Financial assets classified as at FVTPL are measured at fair value with changes in fair values recognized in net earnings. They are classified as such when: (i) they are acquired or incurred principally for short-term profit taking and/or meet the

definition of a derivative; or (ii) they meet the criteria for being designated as FVTPL and have been designated as such on initial recognition.

A financial asset is classified as available-for-sale when: (i) it is not classified as a loan and receivable or as at FVTPL; or (ii) it is designated as available-for-sale on initial recognition. The Company does not have any financial assets classified as available for sale. Changes in fair value that remain unrealized for available-for-sale financial instruments are recorded in other comprehensive income until realized or determined to be impaired at which time the gain, loss or impairment is recognized in net income (loss) for the period.

Financial assets classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates the effective interest income or interest expense over the term of the financial asset or liability, respectively. The interest rate is the rate that exactly discounts estimated future cash receipts or payments throughout the term of the financial instrument to the net carrying amount.

The following is a summary of the categories of financial instruments included in the Company's consolidated statement of financial position as well as their designation by the Company:

Balance sheet item	Classification	Measurement basis
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Refundable deposits	Loans and receivables	Amortized cost
Cash held in trust	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Due to related parties	Other liabilities	Amortized cost

### Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that financial assets are impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows of the financial asset that can be reliably measured.

## **OFF-BALANCE SHEET ARRANGEMENTS**

There were no off-balance sheet arrangements engaged by the Company or any of its subsidiaries.

## **SUBSEQUENT EVENTS**

On June 18, 2015, the Company announced its intention to undertake a non-brokered private placement to raise approximately \$2,000,000 through the issuance of units at a price of \$0.25 per unit. Each unit will consist of one common share and one-half of a share purchase warrant. Each whole warrant will be exercisable at a price of \$0.30 per warrant share for a period of two years. The net proceeds will be used for operations and general working capital purposes. The non-brokered private placement is expected to close on or about July 17, 2015.

Also on June 18, 2015, the Company suspended its normal course issuer bid that commenced on February 27, 2015.

On June 22, 2015, the Company, through a nominee company, signed an agreement to purchase a 19-year-old operating hotel located in downtown Vancouver, B.C., for less than \$50,000,000. The Company intends for the hotel to be converted to long-stay student-centric accommodations with the Company's customary full-service arrangements such as on-site tutoring, weekly housekeeping, weekend excursion activities, hot meals and other student services. Renovation costs are expected to be minimal. The purchase is subject to a number of conditions including the satisfactory completion of due diligence.

On July 6, 2015, Developer 2 for GEC Project 2 received the re-zoning approvals and development permits in connection with GEC Project 2.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

In its assessment of the effectiveness in internal control over financial reporting as of May 31, 2015, the Company determined that there were control deficiencies that constituted material weaknesses, as described below.

- Management has identified certain material weaknesses that existed in the design or operation of the Company's internal control over financial reporting including ineffective control over the financing reporting of subsidiaries and ineffective controls related to the period-end financial reporting process that impacts management's ability to oversee the preparation of the consolidated financial statements.

Due to these material weaknesses, management concluded that our internal control over financial reporting was not effective as of May 31, 2015.

### **Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting**

The Company is in the process of developing and implementing a remediation plan to address the material weaknesses as described above. The Company is taking the following actions to improve internal controls over financial reporting:

- Steps to enhance our risk assessment, internal control design and documentation during the year ended August 31, 2015; and
- Development and implementation of other procedures in the internal control function.

In light of the aforementioned material weaknesses, management conducted a thorough review of all significant or non-routine adjustments for the Third Quarter of Fiscal 2015. As a result of this review, management believes that there are no material inaccuracies or omissions of material fact and, to the best its knowledge, believes that the consolidated financial statements for the Third Quarter of Fiscal 2015 fairly present in all material respects and financial position and results of operations for the Company in conformity with IFRS.

The Company has allocated additional resources, consultants, and management effort which are expected to improve its internal controls over financial reporting. The Company plans to continue to invest in improving its internal controls over financial reporting over the current fiscal year.

**CIBT EDUCATION GROUP INC.**  
**SCHEDULE OF SHARE CAPITAL**  
**AS AT JULY 14, 2015**

Authorized share capital consists of 150,000,000 common shares without par value.

	Number	Value
<b>Issued and outstanding</b>		
Balance at August 31, 2012	71,949,344	\$ 48,182,766
- treasury share cancellations	(6,015,224)	-
Balance at August 31, 2013	65,934,120	48,182,766
- treasury share cancellations	(865,600)	-
- for stock option exercise at \$0.24 per share	1,500	525
- for share purchase warrant exercise at \$0.35 per share	1,386,833	653,402
Balance at August 31, 2014	66,456,853	48,836,693
- treasury share cancellations	(2,523,100)	-
Balance at May 31, 2015 and July 14, 2015	63,933,753	\$ 48,836,693

**Escrow shares**

No escrow shares were issued and outstanding as at July 14, 2015.

**Stock options**

Details of options outstanding as at July 14, 2015 are as follows:

Number of Options	Exercise Price	Expiry Date	Remaining Contractual Life
1,265,000	\$0.42	March 1, 2016	0.63 years
150,000	\$0.25	June 30, 2016	0.96 years
2,090,500	\$0.24	January 6, 2017	1.48 years
30,000	\$0.37	July 10, 2019	3.99 years
<u>3,535,500</u>			

As at July 14, 2015, a total of 3,463,000 stock options were exercisable with a weighted average exercise price of \$0.31 per share

**Share purchase warrants**

No share purchase warrants were outstanding as at July 14, 2015.



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

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

- history of losses from operations
- need for additional capital to expand operations
- dependence on key personnel, the Company's facility providers and educational service providers in China
- risks involving the Chinese legal system, tax system, and foreign currency limitation
- ability to compete effectively with competitors that have greater financial, marketing and other resources
- the Company's reliance upon third parties
- ability to manage planned growth and integrate new business opportunities into existing operations
- risks related to government regulations and obtaining required approvals
- the possibility that personal information that the Company collects may be vulnerable to breach, theft or loss, which could subject the Company to liability or adversely affect its reputation and operations

A more detailed description of the above risks and uncertainties, and others, can be found under the heading "Risk Factors" in the Company's annual information form for Fiscal 2014 filed on SEDAR at [www.sedar.com](http://www.sedar.com).

**--- END OF MANAGEMENT'S DISCUSSION & ANALYSIS ---**