CLOUD NINE EDUCATION GROUP LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended June 30, 2016 and 2015

(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

CLOUD NINE EDUCATION GROUP LTD.
Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

		June 30, 2016		September 30, 2015 (Audited)
ASSETS				
Current				
Cash	**$**	**87,036**	$	12,873
Available-for-sale investments		**1**		1
Bond deposit (Note 3)		**27,648**		27,611
Accounts receivable		**103,904**		109,068
Prepaid expenses		**136,092**		94,864
Inventory		**10,368**		3,915
		365,050		220,721
Non-current assets				
Property and equipment (Note 4)		**12,719**		11,588
Intangible assets (Note 5)		**277,300**		413,711
Assets classified as held for sale		**-**		114,970
		290,019		567,880
TOTAL ASSETS	**$**	**655,069**	$	788,601
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**210,898**	$	188,353
Deferred revenue		**136,492**		107,148
Loans payable		**-**		177,663
		347,390		473,164
Non-current liabilities				
Long-term liabilities (Note 7)		**196,245**		196,245
Liabilities classified as held for sale		**-**		180,852
Loans payable (Notes 6)		**163,224**		-
Convertible debenture (Note 15)		**298,000**		-
		657,469		377,097
TOTAL LIABILITIES		**1,004,859**		850,261
SHAREHOLDERS' DEFICIENCY				
Share capital (Note 8)		**567,618**		2
Reserves		**1,445,529**		1,441,145
Equity portion of convertible debenture (Note 15)		**2,000**		-
Subscriptions received		**-**		100,000
Deficit		**(2,364,937)**		(1,602,807)
TOTAL SHAREHOLDERS' DEFICIENCY		**(349,790)**		(61,660)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	**$**	**655,069**	$	788,601

Going concern (Note 1)

These interim consolidated financial statements were authorized for issuance by the Board of Directors on August 29, 2016. They are signed on behalf of the Board of Directors by:

"Michael Hunter" (Signed)
Director

"Dalton Larson" (Signed)
Director

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

CLOUD NINE EDUCATION GROUP LTD.
Interim Condensed Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)
(Unaudited - Prepared by Management)

	Three months ended June 30, 2016	Three months ended June 30, 2015	**Nine months ended June 30, 2016**	Nine months ended June 30, 2015
Revenue				
Tuition fees	**$ 126,392**	83,949	**$ 515,629**	184,976
Curriculum sales	**7,900**	-	**7,900**	-
Testing and other income	**4,507**	272,594	**71,064**	678,711
	138,799	356,543	**594,593**	863,687
Direct costs (Note 13)	**174,690**	285,601	**633,550**	823,019
	(35,891)	70,942	**(38,957)**	40,668
Expenses				
Consulting fees	**-**	7,076	**-**	26,407
Depreciation	**1,600**	600	**3,400**	600
Regulatory and other filing fees	**2,666**	-	**11,046**	-
Insurance	**1,200**	885	**6,912**	3,253
Marketing and advertising	**21,102**	66,811	**44,682**	84,796
Office and administration	**1,045**	25,810	**32,969**	41,749
Professional fees	**24,154**	32,624	**103,153**	43,949
Salaries and benefits	**86,698**	72,663	**299,920**	260,819
	138,468	206,469	**502,082**	461,576
Loss before other expenses	**(174,359)**	(135,527)	**(541,039)**	(420,908)
Other expenses				
Impairment of intangible assets (Note 5)	**-**	(10,000)	**(136,273)**	(10,000)
Interest expense	**(1,000)**	-	**(22,061)**	-
Loss from continuing operations	**(175,359)**	(145,527)	**(699,373)**	(430,908)
Loss from discontinued operations (Note 14)	**-**	(121,986)	**(62,757)**	(352,816)
Net loss and comprehensive loss for the period	**(175,359)**	(153,537)	**(762,130)**	(783,724)
Basic and diluted loss per share – continuing operations	**$ (0.01)**	$ (0.02)	**$ (0.02)**	$ (0.21)
Basic and diluted loss per share – discontinued operations	**$ (0.00)**	$ (0.01)	**$ (0.00)**	$ (0.17)
Weighted average number of shares outstanding	**28,948,888**	5,986,310	**28,975,658**	1,995,437

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

CLOUD NINE EDUCATION GROUP LTD.

Interim Condensed Consolidated Statements of Changes in Deficiency
(Expressed in Canadian dollars)
(Unaudited - Prepared by Management)

	Equity portion of convertible debenture	Share capital		Reserves	Subscriptions received	Deficit	Total
		Number	Amount				
Balance at September 30, 2014	$ –	–	$ –	$ 153,245	$ –	$ (31,519)	$ 121,726
Net loss for the period	–	–	–	–	–	(172,617)	(172,617)
Balance at December 31, 2014	–	–	–	153,245	–	(204,136)	(50,891)
Net loss for the period	–	–	–	–	–	(319,433)	(319,433)
Balance at March 31, 2015	–	–	$ –	$ 153,245	$ –	$ (523,569)	$ (370,324)
Balance at September 30, 2015	–	27,209,210	$ 2	$ 1,441,145	$ 100,000	$ (1,602,807)	$ (61,660)
Units issued for cash		2,100,000	500,000	–	(100,000)	–	400,000
Fair value of agent's warrants		–	(4,384)	4,384	–	–	–
Share issuance costs		–	(12,000)	–	–	–	(12,000)
Subscriptions received		–	–	–	15,000	–	15,000
Net loss for the period		–	–	–	–	(386,134)	(386,134)
Balance at December 31, 2015	–	29,309,210	483,618	1,445,529	15,000	(1,988,941)	(44,794)
Units issued for cash		300,000	75,000	–	–	–	75,000
Share issuance costs		–	(6,000)	–	–	–	(6,000)
Net loss for the period		–	–	–	–	(200,637)	(200,637)
Balance at March 31, 2016	–	29,609,210	$ 552,618	$ 1,445,529	$ 15,000	$ (2,189,578)	$ (176,431)
Units issued for cash		60,000	15,000		(15,000)		–
Convertible debentures issued	2,000						2,000
Net loss for the period						(175,359)	(175,359)
Balance at June 30, 2016	**2,000**	**29,669,210**	**567,618**	**1,445,529**	–	**(2,364,937)**	**(349,790)**

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

CLOUD NINE EDUCATION GROUP LTD.
Interim Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited - Prepared by Management)

		Nine months ended June 30, 2016		Nine months ended June 30, 2015
Cash flows from operating activities				
Net loss for the period	$	**(762,130)**	$	(783,724)
Items not affecting cash:				
Depreciation		**3,400**		16,800
Share-based compensation		**-**		98,896
Impairment of intangible assets		**136,273**		-
Accrued interest		**2,063**		-
Changes in non-cash working capital items:				
Accounts receivable		**5,164**		(72,038)
Prepaid expenses		**(41,228)**		(59,656)
Inventory		**(6,453)**		107
Accounts payable and accrued liabilities		**17,041**		68,141
Deferred revenue		**32,592**		58,853
		(613,278)		(672,621)
Cash flows from investing activities				
Purchase of property and equipment		**(4,532)**		(60,386)
Digital curriculum development costs		**(63,589)**		(90,318)
Proceeds from disposal of subsidiary		**102**		-
		(68,019)		(150,704)
Cash flows from financing activities				
Funding and expenses paid by BHR Capital Corp.		**-**		1,016,964
Proceeds from issuance of units - net		**457,000**		-
Proceeds from share subscriptions		**15,000**		-
Proceeds from convertible debenture		**300,000**		-
(Repayment of) proceeds from loans payable		**(16,540)**		5,849
		755,460		1,022,813
Increase in cash		**74,163**		199,488
Cash, beginning of period		**12,873**		32,311
Cash, end of period	$	**87,036**	$	231,799
Supplemental cash flow information				
Cash paid for interest	$	**–**	$	–
Cash paid for taxes	$	**–**	$	–

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

1. GENERAL INFORMATION AND GOING CONCERN

a) Description of the business

Cloud Nine Education Group Ltd. (the "Company") was incorporated in the Province of British Columbia on April 14, 2015, under the Business Corporations Act of British Columbia. Effective March 30, 2016, the Company changed its name from Anterior Education Holdings Ltd. to Cloud Nine Education Group Ltd. The Company's principal business focuses on Canadian English as a Second Language ("ESL") education and licensing of its digital curriculum called the Cloud Nine Curriculum to ESL providers including independent schools, universities and high schools. Effective June 10, 2015, the Company completed a Plan of Arrangement with BHR Capital Corp. ("BHR") and Cervantes Capital Corp. ("Cervantes"), whereby the Company became a reporting issuer, and BHR, and its wholly-owned subsidiaries, became wholly-owned subsidiaries of the Company. As the Plan of Arrangement was deemed to be a recapitalization of BHR, these financial statements are presented as a continuation of BHR, in which its assets and liabilities and operations are included in the consolidated financial statements at their historical carrying value. The Company's registered office is at Suite 900, 549 Howe Street, Vancouver, British Columbia, V6C 2C2.

b) Going concern

The Company has incurred a net comprehensive loss of $762,130 (2015 - $783,724) during the nine months ended June 31, 2016. As at June 30, 2016, the Company had a working capital of $17,660 (September 30, 2015 - $252,443) and an accumulated deficit of $2,364,937 (September 30, 2015 - $1,602,807). The operating and cash flow results raise uncertainty about the ability of the Company to continue as a going concern.

The continued operations of the Company are dependent on future profitable operations, management's ability to manage costs and the future availability of equity or debt financing. The above facts indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. These interim consolidated financial statements have been prepared on the basis the Company will operate as a going concern, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. These interim consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting, and the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments classified as available for sale which are stated at their fair value. These financial statements are presented in Canadian dollars. The interim consolidated financial statements do not include all disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly, should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2015, which have been prepared in accordance with IFRS.

These interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The presentation and functional currency of the Company is the Canadian dollar.

In the opinion of the Company's management, all adjustments considered necessary for a fair presentation have been included.

b) Basis of consolidation

The interim consolidated financial statements include the accounts of the Company and the following entities:

BHR Capital Corp. ("BHR")	Wholly-owned subsidiary of the Company
Cloud Nine College Ltd. ("CNC")	Wholly-owned subsidiary of BHR
English Canada World Organization Inc. ("EC")	Wholly-owned subsidiary of CNC

The interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intercompany transactions and balances are eliminated on consolidation.

c) Use of judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's best estimates as additional information becomes available in the future.

Significant areas requiring the use of estimates include the useful life and depreciation of property and equipment, carrying value of intangible assets, measurement of share-based payments, and deferred income tax asset valuation allowances. Judgements made by management in the application of IFRS that have a significant effect on the financial statements include the factors supporting the capitalization and recoverability of property and equipment, intangible assets, and inputs into the calculation of the fair value of share-based payments.

d) New standards and interpretations

Certain pronouncements have been issued by the IASB, or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2017 or later years.

- New standard IFRS 9, "*Financial Instruments*"
- New standard IFRS 15 "*Revenue from Contracts with Customers"*

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements. Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. BOND DEPOSIT

As at March 31, 2016, the Company has a bond held at the Canadian Imperial Bank of Commerce as a letter of credit for the beneficiary of the Minister of Finance for the Province of Nova Scotia on behalf of the Private Career Colleges Division in the amount of $27,648 (September 30, 2015 - $27,611), which includes accrued interest of $49 (September 30, 2015 - $11). The bond bears interest at 0.55% per annum and matures on September 6, 2016.

(Expressed in Canadian dollars)

4. PROPERTY AND EQUIPMENT

Cost		**Leasehold improvements**
Balance, September 30, 2015	**$**	**12,788**
Addition		**4,531**
Balance, June 30, 2016		**17,319**

Accumulated depreciation		**Leasehold improvements**
Balance, September 30, 2015	$	1,200
Depreciation		3,200
Balance, March 31, 2016	**$**	**4,600**

Net carrying amounts		**Leasehold improvements**
Balance, September 30, 2015	$	11,588
Balance, March 31, 2016	**$**	**12,719**

5. INTANGIBLE ASSETS

The changes in the carrying amount of intangible assets are shown below:

		Curriculum		**Trade name**		**Total**
Balance, September 30, 2015	$	213,711	$	200,000	$	413,711
Additions		63,589		-		63,589
Impairment		-		(200,000)		(200,000)
Balance, March 31, 2016	**$**	**277,300**	**$**	**-**		**$277,300**

As at June 30, 2016 and September 30, 2015, the Company's curriculum is still in the development stage and will not be depreciated until the curriculum is fully developed.

In January 2016, the Company's subsidiary, Anterior Education Systems Ltd., which was operating under the name "ILI Vancouver", changed its name to Cloud Nine College Ltd. and therefore, the Company recognized an impairment of $200,000 on the trade name. This impairment loss was offset by the gain on disposal of subsidiary, "International Language Institute Ltd.", in the amount of $63,727 since the Company was no longer using the trade name "ILI".

6. RELATED PARTY TRANSACTIONS

a) At June 30, 2016, the Company had advance to the Chief Executive Officer ("CEO") of the Company for $5,000 (September 30, 2015 - $21,500), which is non-interest bearing, unsecured and due on demand.

b) At June 30, 2016, the Company was indebted to a former director of the Company for $100,000, pursuant to a promissory note dated September 30, 2014. The amount is non-interest bearing, unsecured and was due on September 30, 2015. On November 3, 2015, the Company entered into an agreement to extend the maturity date to September 30, 2017 for a one-time interest charge of $20,000.

c) At June 30, 2016, the Company was indebted to a director of the Company for $26,000 (September 30, 2015 - $26,000), pursuant to a promissory note dated August 12, 2015. The amount is unsecured, and is due on September 30, 2017. Pursuant to the promissory note, a one-time interest charge of $1,000 is payable as the amount was not paid by the maturity date. In addition, interest of 1% compounded monthly is due on the outstanding principal and interest. At June 30, 2016, the Company recognized accrued interest of $2,063 (September 30, 2015 - $163).

d) At June 30, 2016, the Company was indebted to a shareholder of the Company for $40,000 (September 30, 2015 - $Nil), pursuant to a promissory note dated March 29, 2016. The amount is unsecured and is due on September 30, 2017. Pursuant to the promissory note, interest of 1% compounded monthly is due on the outstanding principal within 30 days of the end of each calendar month during which is accrued. Interest will increase to 2% per month after 90 days from March 29, 2016. As at June 30, 2016, the Company recognized accrued interest of $Nil.

e) During the nine months ended June 30, 2016, the Company paid salaries and benefits of $90,000 (2015 - $15,000) to the CEO of the Company, and $67,500 (2015 - $10,500) to the Chief Financial Officer ("CFO") of the Company.

7. LONG-TERM LIABILITIES

The Company is in dispute with the British Council as a result of loss of business opportunity and related revenues after the sale of the Company's domain IELTS.ca to the British Council. The Company is currently reviewing legal advice regarding how much monetary compensation the Company should be seeking to meet the requirement of sufficient remedy. In the interim, management is of the opinion that any liability which may exist should be classified as long-term due to the British Council's failure to meet the terms and conditions associated with their acquisition of the IELTS.ca domain from the Company. As at June 30, 2016, $196,245 (September 30, 2015 - $196,245) were owing to the British Council and the Company does not intend to pay the amounts owing in the next 12 months until the dispute is settled.

8. SHARE CAPITAL

A. Authorized

Unlimited number of common shares without par value.

B. Issued and outstanding

a) On October 1, 2015, the Company issued 500,000 units at $0.25 per unit for proceeds of $125,000. Each unit includes one common share and one share purchase warrant exercisable at $0.50 per share for a term of 18 months. In connection with the issuance, the Company paid share issuance costs of $10,000 and issued 40,000 agent's warrants exercisable at $0.50 per share for a term of 18 months.

(Expressed in Canadian dollars)

b) On October 16, 2015, the Company issued 100,000 units at $0.25 per unit for proceeds of $25,000. Each unit includes one common share and one share purchase warrant exercisable at $0.50 per share for a term of 18 months. In connection with the issuance, the Company paid share issuance costs of $2,000 and issued 8,000 agent's warrants exercisable at $0.50 per share for a term of 18 months.

8. SHARE CAPITAL (continued)

B. Issued and outstanding (continued)

c) On November 19, 2015, the Company issued 1,000,000 units at $0.25 per unit for proceeds of $250,000. Each unit includes one common share and one share purchase warrant exercisable at $0.50 per share for a term of 18 months.

d) On November 23, 2015, the Company issued 500,000 units at $0.20 per unit for proceeds of $100,000. Each unit includes one common share and one share purchase warrant exercisable at $0.40 per share for a term of 2 years.

e) On February 18, 2016, the Company issued 300,000 units at $0.25 per unit for proceeds of $75,000. Each unit includes one common share and one share purchase warrant exercisable at $0.50 per share for a period of 18 months. In connection with the issuance, the Company paid share issuance costs of $6,000 and issued 24,000 agent's warrants exercisable at $0.50 per share for a term of 18 months.

f) On June 16, 2016, the Company issued 60,000 common shares at $0.25 per share unit for proceeds of $60,000. Each unit includes one common share and one share purchase warrant exercisable at $0.50 per share for a period of 18 months.

9. SHARE PURCHASE WARRANTS

The following table summarizes information about the warrants issued for the nine months ended June 30, 2016:

	Number of warrants	Weighted average exercise price
Outstanding, September 30, 2015	4,408,730	$ 0.16
Issued	2,502,000	$ 0.48
Outstanding, June 30, 2016	**6,910,730**	**$ 0.26**

The following table summarizes information about warrants outstanding as at June 30, 2016:

Exercise Price	Expiry date	Warrants outstanding
$ 0.10	February 25, 2016	1,075,000
$ 0.10	March 6, 2016	625,000
$ 0.10	April 15, 2016	525,000
$ 0.10	April 17, 2016	375,000
$ 0.25	April 22, 2017	736,600
$ 0.25	May 1, 2017	1,072,130
$ 0.50	April 1, 2017	540,000

(Expressed in Canadian dollars)

$ 0.50	April 16, 2017	108,000
$ 0.50	May 19, 2017	1,000,000
$ 0.40	November 23, 2017	500,000
$ 0.50	August 19, 2017	339,000
	Total	6,910,730

10. STOCK OPTIONS

The Company has adopted a stock option plan pursuant to which options may be granted to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares and no one person may receive in excess of 5% of the outstanding common shares of the Company. The exercise price of each option is set by the Board of Directors at the time of grant but cannot be less than $0.10 per share or the market price (less permissible discounts) on a Canadian Stock Exchange. Options can have a maximum term of five years. Vesting of options is at the discretion of the Board of Directors at the time the options are granted.

The following table summarizes the continuity of the Company's stock options:

	Number of stock options	Weighted average exercise price
Outstanding, September 30, 2015	1,200,000	$ 0.10
Options expired	(267,500)	0.10
Outstanding, June 30, 2016	**932,500**	**$ 0.10**

Additional information regarding stock options outstanding as at June 30, 2016, is as follows:

Outstanding			Exercisable	
Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of stock options	Weighted average exercise price $
932,500	4.0	$ 0.10	932,500	$ 0.10

11. RISK MANAGEMENT

i) Risk management overview

The Company's activities are exposed to a variety of financial risks such as credit risk, liquidity risk, and market risk. This section contains information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels.

ii) Fair value of financial instruments

The fair values of cash, available-for-sale investments, accounts receivable, accounts payables and accrued liabilities, and loans payable approximate their carrying values due to the short term maturity of those instruments. The fair value of the bond deposit approximates its carrying value as it bears interest at market floating rates or fixed rates consistent with market rates for similar instruments.

11. RISK MANAGEMENT (continued)

ii) Fair value of financial instruments (continued)

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

iii) Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk includes cash, and accounts receivables. The Company's maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company reduces its credit risk by: maintaining its bank accounts at large financial institutions, and monitoring accounts receivables. The Company has no past due or impaired receivables.

iv) Liquidity risk

Liquidity risk is the risk of the Company's inability to meet its financial obligations as they come due. As at June 30, 2016, the Company had negative working capital of $ (September 30, 2015 - $252,443). The Company is focused on generating more revenue and is actively pursuing additional sources of financing to ensure that it can meet its on-going operating requirements and planned capital expenditures. The Company has no current commitments for capital expenditures as of the date hereof. There is no assurance that the Company will be successful in these initiatives.

v) Currency risk

The Company is not currently exposed to the financial risk related to the fluctuation of foreign exchange rates.

vi) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. It arises when the Company invests in interest bearing financial instruments. As at June 30, 2016, the Company did not have any financial instruments subject to significant interest rate risk.

vii) Capital management

The Company defines capital as share capital, reserves, subscriptions received and deficit. The Company's objective is to ensure that capital resources are readily available to meet its approved capital expenditure program and to take advantage of attractive acquisition opportunities as they arise.

The Company sets its capital structure in proportion to risk. The Company continually monitors economic and general business conditions and makes adjustments accordingly to maintain or adjust the capital structure. For the capital structure, the Company may purchase and cancel shares pursuant to issuer bids or issue new shares. In order to maximize on-going development efforts, the Company does not pay out dividends.

(Expressed in Canadian dollars)

12. COMMITMENTS

As at June 30, 2016, the Company had one lease for school facilities, located in Vancouver.

The future minimum lease payments, including operating costs and taxes, as of June 30, 2016, under the lease are:

2016	$	33,504
2017		134,016
2018		11,168
	$	178,688

13. DIRECT COSTS

		Nine months ended June 30, 2016		Nine months ended June 30, 2015
Wages and benefits	**$**	**173,460**	$	293,137
Commission and promotion costs		**136,436**		71,334
IELTS testing fees		**-**		229,579
Other (a)		**211,539**		139,659
Occupancy costs (b)		**97,532**		60,471
Bank and credit card charges (b)		**11,511**		28,839
Total	**$**	**633,550**	$	823,019

(a) Other direct costs include student housing, course material, Provincial regulatory dues, activity and other direct miscellaneous items.
(b) Occupancy costs and banks charges were classified as general expenses in prior years.

14. ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

On October 30, 2015, the Company completed an agreement to sell all of the issued and outstanding securities of International Language Institute Ltd. (“ILI”) to an arm’s-length third party in consideration for $102.

Assets that are held for disposal are classified as discontinued operations and are valued at the lower of their carrying amounts and fair value less costs to sell. The Company presents assets and liabilities associated with assets held for sale separately from the Company’s other assets and liabilities. A discontinued operation is a component of the Company that either has been disposed of, or is classified as held for sale. Net income (loss) of the discontinued operations with gain or loss recognized on disposal are combined and presented in the statement of comprehensive income (loss) and cash flows are to be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. The results of operations of ILI for all periods have been classified as discontinued operations.

During the nine months ended June 30, 2016, the Company recognized impairment of intangible assets in the amount of $136,273.

(Expressed in Canadian dollars)

14. ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

International Language Institute Ltd.		**Three months ended March 31, 2016**	Three months ended June 30, 2015	**Nine months ended June 30, 2016**	Nine months ended June 30, 2015
Revenue	**$**	**–**	232,917	**–**	685,615
Direct costs		**–**	130,066	**23,475**	560,043
		–	102,851	**(14,540)**	125,572
Expenses					
Bank charges		**–**	-	**1,128**	-
Depreciation		**–**	3,462	**–**	16,200
Marketing and advertising		**–**	3,032	**–**	29,145
Office and administration		**–**	6,068	**213**	57,765
Salaries and benefits		**–**	108,299	**37,941**	341,765
		–	120,861	**48,217**	478,388
Net loss and comprehensive loss for the period	**$**	**–**	(18,010)	**(62,757)**	(352,816)

15. CONVERTIBLE DEBENTURES

On April 21, 2016, the Company signed a 10% secured convertible debenture agreement with a shareholder in the amount of $300,000. The Debenture is due on September 30, 2017 and is repayable in full with accrued interest at 10% per annum on maturity and the Company has signed a General Security Agreement. The Holder may at any time during the term convert all or part of the Debenture into Units at a conversion price of $0.25 per Unit, where each Unit consists of one common share of the Company, and one-half common share purchase warrant, where each whole warrant gives the Holder the right to purchase one common share of the Company at $0.50 per share for 18 months.

Upon issuance of the debentures, the Company recorded a liability of $298,000. The liability component is being accreted using the effective interest rate method. The amount was calculated using a discount rate of 12%. The estimated fair value of the holders' options to convert the debentures into common shares in the amount of $2,000 has been separated from the fair value of the liability and is included in equity.

16. SUBSEQUENT EVENTS

On July 6, 2016, the Company filed a preliminary prospectus with the securities commissions in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario in connection with the Company's proposed initial public offering. A preliminary prospectus has been filed with the applicable securities commissions but has not yet become final for the purpose of the sale of securities to the public