CLOUD NINE EDUCATION GROUP LTD.
(formerly Anterior Education Holdings Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2016 and 2015

(Expressed in Canadian Dollars)

MORGAN & COMPANY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Cloud Nine Education Group Ltd.
(formerly Anterior Education Holdings Ltd.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Cloud Nine Education Group Ltd. (formerly Anterior Education Holdings Ltd.), which comprise the consolidated statements of financial position as at September 30, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, changes in deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cloud Nine Education Group Ltd. as at September 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada	*"Morgan & Company LLP"*
January 30, 2017	Chartered Professional Accountants

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CLOUD NINE EDUCATION GROUP LTD.
(formerly Anterior Education Holdings Ltd.)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	September 30, 2016	September 30, 2015
ASSETS		
Current		
Cash	**$ –**	$ 12,873
Available-for-sale investment (Note 4)	**1**	1
Accounts receivable	**65,240**	109,068
Bond deposit (Note 5)	**27,600**	–
Prepaid expenses	**17,635**	94,864
Inventory	**10,368**	3,915
	120,844	220,721
Non-current assets		
Bond deposit (Note 5)	**–**	27,611
Deferred financing cost	**115,504**	–
Property and equipment (Note 6)	**6,793**	11,588
Intangible assets (Note 7)	**274,172**	413,711
Assets classified as held for sale (Note 17)	**–**	114,970
	396,469	567,880
TOTAL ASSETS	**$ 517,313**	$ 788,601
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	**$ 317,700**	$ 188,353
Deferred revenue	**79,492**	107,148
Loans payable (Notes 8)	**172,750**	177,663
Convertible debenture (Note 9)	**299,758**	–
	869,700	473,164
Non-current liabilities		
Long-term liabilities (Note 10)	**177,947**	196,245
Liabilities classified as held for sale (Note 17)	**–**	180,852
	177,947	377,097
TOTAL LIABILITIES	**1,047,647**	850,261
DEFICIENCY		
Share capital (Note 11)	**565,791**	2
Reserves	**1,449,356**	1,441,145
Subscriptions received (Note 11)	**47,000**	100,000
Deficit	**(2,592,481)**	(1,602,807)
TOTAL DEFICIENCY	**(530,334)**	(61,660)
TOTAL LIABILITIES AND DEFICIENCY	**$ 517,313**	$ 788,601

Going concern (Note 1)
Subsequent events (Note 20)
These consolidated financial statements were authorized for issuance by the Board of Directors on January 30, 2017. 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 consolidated financial statements.

CLOUD NINE EDUCATION GROUP LTD.
(formerly Anterior Education Holdings Ltd.)
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended September 30, 2016	Year ended September 30, 2015
Revenue		
Tuition fees	$ 724,060	$ 407,544
Digital curriculum sales	18,800	–
Testing and other income	79,120	855,160
	821,980	1,262,704
Direct costs (Note 16)	(1,113,168)	(1,266,002)
	(291,188)	(3,298)
Expenses		
Consulting fees	–	32,006
Depreciation	24,379	1,200
Insurance	9,261	4,639
Marketing and advertising	50,659	99,873
Professional fees	181,165	78,428
Regulatory filing fees	12,901	–
Salaries and benefits (Note 8)	210,970	368,111
	489,335	584,257
Loss before other income and expenses	(780,523)	(587,555)
Other income and expenses		
Acquisition-date loss	–	(10,000)
Foreign exchange gain	18,298	–
Impairment of intangible assets (Note 7)	(136,273)	(290,575)
Interest expense	(28,419)	(1,163)
Write-off of property and equipment	–	(4,971)
Loss from continuing operations	(926,917)	(894,264)
Loss from discontinued operations (Note 17)	(62,757)	(677,024)
Net loss and comprehensive loss for the year	$ (989,674)	$ (1,571,288)
Basic and diluted loss per share – continuing operations	$ (0.03)	$ (0.11)
Basic and diluted loss per share – discontinued operations	$ (0.00)	$ (0.08)
Weighted average number of shares outstanding	29,294,893	8,350,689

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

CLOUD NINE EDUCATION GROUP LTD.
(formerly Anterior Education Holdings Ltd.)
Consolidated Statements of Changes in Deficiency
(Expressed in Canadian dollars)

	Share capital			Subscriptions		
	Number	**Amount**	**Reserves**	**received**	**Deficit**	**Total**
Balance at September 30, 2014 (Unaudited)	–	$ –	$ 153,245	$ –	$ (31,519)	$ 121,726
Shares issued for cash	10,000	50	–	–	–	50
Shares issued under Plan of Arrangement with BHR Capital Corp.	27,209,210	2	1,188,954	–	–	1,188,956
Shares cancelled per Plan of Arrangement	(10,000)	(50)	50	–	–	–
Subscriptions received	–	–	–	100,000	–	100,000
Share-based compensation	–	–	98,896	–	–	98,896
Net loss for the year	–	–	–	–	(1,571,288)	(1,571,288)
Balance at September 30, 2015	27,209,210	2	1,441,145	100,000	(1,602,807)	(61,660)
Units issued for cash	2,460,000	590,000	–	(100,000)	–	490,000
Share issuance costs	–	(24,211)	6,211	–	–	(18,000)
Equity portion of convertible debenture issued	–	–	2,000	–	–	2,000
Subscriptions received	–	–	–	47,000	–	47,000
Net loss for the year	–	–	–	–	(989,674)	(989,674)
Balance at September 30, 2016	**29,669,210**	**$ 565,791**	**$ 1,449,356**	**$ 47,000**	**$ (2,592,481)**	**$ (530,334)**

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

CLOUD NINE EDUCATION GROUP LTD.
(formerly Anterior Education Holdings Ltd.)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended September 30, 2016	Year ended September 30, 2015
Cash flows from operating activities		
Net loss for the year	**$ (989,674)**	$ (1,571,288)
Items not affecting cash:		
Accretion expense	**1,758**	–
Depreciation of property and equipment	**4,795**	22,799
Depreciation of intangible assets	**19,584**	–
Impairment of intangible assets	**136,273**	290,575
Share-based compensation	**–**	98,896
Unrealized foreign exchange gain	**(18,298)**	–
Write-off of property and equipment	**–**	4,971
Accrued interest	**6,835**	1,624
Changes in non-cash working capital items:		
Accounts receivable	**43,828**	(80,301)
Prepaid expenses	**77,229**	(31,806)
Inventory	**(6,453)**	1,029
Accounts payable and accrued liabilities	**46,016**	105,079
Deferred revenue	**(33,160)**	(32,476)
	(711,267)	(1,190,898)
Cash flows from investing activities		
Purchase of property and equipment	**–**	(60,387)
Digital curriculum development costs	**(80,045)**	(163,711)
Proceeds from disposal of subsidiary	**102**	–
	(79,943)	(224,098)
Cash flows from financing activities		
Proceeds from convertible debenture	**300,000**	–
Funding and expenses paid by BHR Capital Corp.	**–**	1,016,914
Proceeds from loans payable	**–**	82,349
Repayment of loans	**(4,913)**	–
Increase in long-term liabilities	**–**	196,245
Proceeds from issuance of units, net of issuance costs	**472,000**	50
Proceeds from share subscriptions	**47,000**	100,000
Deferred financing costs	**(35,750)**	–
	778,337	1,395,558
Decrease in cash	**(12,873)**	(19,438)
Cash, beginning of year	**12,873**	32,311
Cash, end of year	**$ –**	$ 12,873
Supplemental cash flow information		
Cash paid for interest	**$ –**	$ –
Cash paid for taxes	**$ –**	$ –
Non-cash investing and financing activities		
Fair value of agent's warrants	**$ 6,211**	$ –

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

(Expressed in Canadian dollars)

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. On November 25, 2016, the Company completed its initial public offering (the "Offering") of 2,035,000 units of the Company at a price of $0.25 per unit for aggregate gross proceeds of $508,750. The common shares of the Company were listed on the Canadian Securities Exchange (the "CSE") on November 24, 2016 and started trading on December 1, 2016, under the symbol "CNI". The Company's registered office is at Suite 900, 549 Howe Street, Vancouver, British Columbia, V6C 2C2.

b) Going concern

The Company incurred a net loss of $989,674 (2015 - $1,571,288) during the year ended September 30, 2016. As at September 30, 2016, the Company had a working capital deficiency of $748,856 (2015 - $252,443) and an accumulated deficit of $2,592,481 (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 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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These 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 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 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") (formerly Anterior Education Systems Ltd. ("AES"))	Wholly-owned subsidiary of BHR
English Canada World Organization Inc. ("EC")	Wholly-owned subsidiary of CNC

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

The 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 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 and goodwill, 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 goodwill, and inputs into the calculation of the fair value of share-based payments.

d) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The Company's financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments.

Classification choices for financial assets include:

- Fair value through profit or loss ("FVTPL"): measured at fair value with changes in fair value on re-measurement recorded in net income or loss;
- Held to maturity: non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity and are recorded at amortized cost with gains or losses recognized in net income or loss in the period that the asset is derecognized or impaired;
- Available-for-sale: non-derivative financial assets not classified in any other category; and are measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and
- Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortized cost with gains and losses recognized in net income or loss in the period that the financial asset is derecognized or impaired.

Financial instruments include cash, available-for-sale investment, accounts receivable, bond deposit, accounts payable and accrued liabilities, and loans payable. Cash is classified as FVTPL, available-for-sale investment is classified as available-for-sale, accounts receivable is classified as loans and receivable, bond deposit is classified as held to maturity, and accounts payable and accrued liabilities and loans payable are classified as other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Cash

Cash includes cash on hand, and deposits held with Canadian registered banks with original maturities of three months or less.

f) Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventory, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Inventory consists of books and computer products that are recorded at the lower of cost and net realizable value. Costs are mainly printing cost and material cost. Net realizable value is calculated as the estimated selling price in the ordinary course of business less the estimated costs of completion, discounts, commissions and other selling expenses necessary to make the sale.

g) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Where the costs of certain components of property and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately. Depreciation expense is recognized in earnings using the depreciation rates as follows:

- Furniture and office equipment – 5 years straight-line basis
- Computer equipment – 50% diminishing balance basis
- Leasehold improvements – straight-line basis over the lease term

The Company reviews the depreciation rate and the depreciation method at each reporting date.

h) 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 fair value at the acquisition date. Indefinite life intangible assets, which include trade names, are not subject to depreciation and are tested for impairment annually or when indicated by changes in events or circumstances. An impairment of an indefinite life intangible asset is recorded when, and to the extent that, the carrying value of an indefinite life intangible asset exceeds the fair value of the related indefinite life intangible asset with fair values of the indefinite life intangible assets being determined pursuant to generally accepted valuation methodologies.

Finite life intangible assets, which includes digital curriculum, are carried at cost less accumulated depreciation and impairment. The asset is depreciated over five years on a straight-line basis, being its estimated useful life. Finite life intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable through future discounted net cash flows from the use or disposal of the related finite life intangible asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's cash generating units that are expected to benefit from the synergies of the business combination. Goodwill is not depreciated and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Specifically, goodwill impairment is determined comparing the fair values of each cash generating unit to its carrying amount, including goodwill. If the fair value of each cash generating unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a cash generating unit exceeds its fair value; the second step compares the implied fair value of goodwill to the carrying value of the cash generating unit's goodwill.

The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined to the assets and liabilities of the cash generating unit. The excess of the fair value of the cash generating unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow analysis. The Company performs the impairment test annually.

j) Revenue recognition

Revenue from a contract to provide service is recognized by reference to the stage of completion of the contract. Tuition fee revenue, net of discounts, is recognized on a straight-line basis over the period of instruction. Tuition fees paid in advance of course offerings, net of related discounts, are recorded as deferred revenue and recognized in revenue over the period of instruction.

Digital curriculum revenue and other income, which includes internship fees and homestay service, are recognized when earned.

k) Loss per share

Basic earnings (loss) per common share is computed by dividing their respective net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share is determined by adjusting the respective weighted average number of common shares outstanding for the effects of all potentially diluted common share options and warrants. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

l) Comprehensive loss

Comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the statement of operations. The Company does not have items representing comprehensive income or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled, share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

All equity-settled share-based payments are reflected in share-based payment reserve, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

n) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

o) 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 October 1, 2016, or later years.

- New standard IFRS 9, "*Financial Instruments*"
- New standard IFRS 15 "*Revenue from Contracts with Customers*"
- New standard IFRS 16 "*Leases*"

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. SHARE EXCHANGE

On February 6, 2015, the Company's wholly-owned subsidiary, BHR Capital Corp. ("BHR"), entered into a Letter Agreement, as amended on March 11, 2015, and April 16, 2015, for the acquisition of Anterior Education Systems Ltd. ("AES"), whereby AES would become a wholly-owned subsidiary of BHR.

On April 22, 2015, the Letter Agreement closed and BHR acquired all of the issued and outstanding shares of AES in exchange for the issuance of 12,844,110 common shares. Upon closing, the former shareholders of AES held 54% voting control of BHR. As a result of the Letter Agreement, the former shareholders of AES, for accounting purposes, are considered to have acquired control of BHR. Accordingly, the Letter Agreement has been accounted for as a reverse takeover that was not a business combination and effectively a capital transaction of BHR. As AES is deemed to be the accounting acquirer for accounting purposes, its assets and liabilities and operations since incorporation on June 28, 2013, are included in the consolidated financial statements at their historical carrying value. The consolidated financial statements are a continuation of AES in accordance with IFRS 3, *Business Combinations*. The results of operations of BHR are included from April 22, 2015, onwards. At the time of the execution of the Arrangement, BHR had net assets totalling $69,518, consisting of cash of $77,559 and payable of $8,041.

4. PLAN OF ARRANGEMENT

On April 14, 2015, the Company entered into an Arrangement Agreement (the "Arrangement") with BHR Capital Corp. ("BHR") and Cervantes Capital Corp. ("Cervantes"). On June 10, 2015, the shareholders of the Company, BHR and Cervantes executed the Arrangement, as follows:

a) BHR acquired all of the 10,000 issued and outstanding common shares of the Company from Cervantes (the "Purchase Shares") for the purchase price of $10,000 (paid);

b) BHR and the Company exchanged securities on a 1:1 basis, such that all the outstanding common shares of the BHR were exchanged by their holders for the same amount of shares of the Company;

c) the Company issued 396,600 common shares to Cervantes in exchange for 1,000 common shares of Cervantes (collectively the "Exchange Shares"), by which the Company became a reporting issuer;

d) the Exchange Shares were issued as a dividend to the Cervantes shareholders as of the record date on a pro rata basis; and

e) the Purchase Shares were cancelled.

As a result of the Arrangement, the former shareholders of BHR, for accounting purposes, are considered to have acquired control of the Company. Accordingly, the Arrangement has been accounted for as a reverse takeover that was not a business combination and effectively a capital transaction of the Company. As BHR is deemed to be the accounting acquirer for accounting purposes, its assets and liabilities and operations since incorporation on December 3, 2014, are included in the consolidated financial statements at their historical carrying value. The consolidated financial statements are a continuation of BHR in accordance with IFRS 3, *Business Combinations*. The Company's results of operations are included from June 10, 2015, onwards. At the time of the execution of the Arrangement, the Company had net assets totalling $Nil.

As at September 30, 2016, the Company had the 1,000 (2015 – 1,000) common shares of Cervantes from the Arrangement, which were valued at $1 (2015 - $1) and classified as available-for-sale investment.

5. BOND DEPOSIT

As at September 30, 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 $27,600 (2015 - $27,611). On November 14, 2016, the Company cancelled the bond and the full amount of $27,600 was released.

(Expressed in Canadian dollars)

6. PROPERTY AND EQUIPMENT

Cost	Furniture and office equipment	Computer equipment	Leasehold improvements	Total
Balance, September 30, 2014	$ 24,767	$ 1,238	$ 24,768	$ 50,773
Additions	–	47,599	12,788	60,387
Assets classified as held for sale	(19,796)	(48,837)	(24,768)	(93,401)
Write-off	(4,971)	–	–	(4,971)
Balance, September 30, 2015 and 2016	**$ –**	**$ –**	**$ 12,788**	**$ 12,788**

Accumulated depreciation	Furniture and office equipment	Computer equipment	Leasehold improvements	Total
Balance, September 30, 2014	$ –	$ –	$ –	$ –
Depreciation	4,953	12,518	5,328	22,799
Assets classified as held for sale	(4,953)	(12,518)	(4,128)	(21,599)
Balance, September 30, 2015	–	–	1,200	1,200
Depreciation	–	–	4,795	4,795
Balance, September 30, 2016	**$ –**	$ –	**$ 5,995**	**$ 5,995**

Net carrying amounts	Furniture and office equipment	Computer equipment	Leasehold improvements	Total
Balance, September 30, 2015	$ –	$ –	$ 11,588	$ 11,588
Balance, September 30, 2016	**$ –**	$ –	**$ 6,793**	**$ 6,793**

7. INTANGIBLE ASSETS

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

	Digital curriculum	Trade name	Total
Balance, September 30, 2014	$ 50,000	$ 200,000	$ 250,000
Additions	163,711	–	163,711
Balance, September 30, 2015	213,711	200,000	413,711
Additions	80,045	–	80,045
Depreciation	(19,584)	–	(19,584)
Write down	–	(200,000)	(200,000)
Balance, September 30, 2016	**$ 274,172**	**$ –**	**$ 274,172**

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".

8. RELATED PARTY TRANSACTIONS

a) During the year ended September 30, 2016, the Company paid salaries and benefits of $120,000 (2015 - $108,300) to the CEO of the Company, and $78,750 (2015 - $78,750) to the Chief Financial Officer ("CFO") of the Company.

b) At September 30, 2016, the Company was indebted to a former director of the Company for $100,000 (2015 - $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 December 1, 2016 for a one-time interest charge of $20,000. The Company is in negotiation on revising the terms of the promissory note.

c) At September 30, 2016, the Company was indebted to a director of the Company for $26,000 (2015 - $26,000), pursuant to a promissory note dated August 12, 2015. The amount is unsecured, and is due on demand. Pursuant to the promissory note, a one-time interest charge of $1,000 is payable as the amount was not paid by the original maturity date on September 12, 2015. In addition, interest of 1% compounded monthly is due on the outstanding principal and interest. At September 30, 2016, the Company recognized accrued interest of $3,224 (2015 - $163).

d) At September 30, 2016, the Company was indebted to a shareholder of the Company for $40,000 (2015 - $Nil), pursuant to a promissory note dated March 29, 2016. The amount is unsecured and is due on demand. As at September 30, 2016, the Company recognized accrued interest of $3,600. The full amount of the loan was paid back on November 28, 2016.

e) At September 30, 2016, the Company was indebted to two directors of the Company for loans totalling $6,750 (2015 - $Nil). The loans are unsecured, non-interest bearing, and due on demand.

9. CONVERTIBLE DEBENTURE

On April 22, 2016, the Company signed a 10% secured convertible debenture agreement with a shareholder in the amount of $300,000. The convertible debenture is due on October 22, 2016, 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 Debenture, 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 debenture into common shares in the amount of $2,000 has been separated from the fair value of the liability and is included in equity. During the year ended September 30, 2016, the Company recognized accretion of the discount on the convertible debenture of $1,758. At September 30, 2016, the carrying value of the convertible debenture was $299,758. The Company is in negotiation with the Holder on revising the terms of the convertible debenture agreement.

10. 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 September 30, 2016, $177,947 (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.

11. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Issued and outstanding

a) On April 14, 2015, the Company issued 10,000 shares for proceeds of $50.

b) On June 10, 2015, the Company issued 26,812,610 common shares to the shareholders of BHR Capital Corp. on a 1:1 basis pursuant to an Arrangement Agreement (Note 4). In connection with the Arrangement Agreement, the Company cancelled 10,000 common shares which were previously outstanding and issued 396,600 common shares in exchange for 1,000 shares of Cervantes Capital Corp.

c) 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 with a fair value of $3,660, determined using the Black-scholes option pricing model based on the following assumptions: expected volatility – 117%, expected term – 1.5 years, risk-free interest rate – 0.52%, expected dividend yield – 0%. The agent's warrants are exercisable at $0.50 per share for a term of 18 months.

d) 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 with a fair value of $724, determined using the Black-scholes option pricing model based on the following assumptions: expected volatility – 117%, expected term – 1.5 years, risk-free interest rate – 0.53%, expected dividend yield – 0%. The agent's warrants are exercisable at $0.50 per share for a term of 18 months.

e) 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-half of one share purchase warrant exercisable at $0.50 per share for a term of 18 months.

f) 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.

g) 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 with a fair value of $1,827, determined using the Black-scholes option pricing model based on the following assumptions: expected volatility – 105%, expected term – 1.5 years, risk-free interest rate – 0.44%, expected dividend yield – 0%. The agent's warrants are exercisable at $0.50 per share for a term of 18 months.

h) On June 16, 2016, the Company issued 60,000 units at $0.25 per unit for proceeds of $15,000. Each unit includes one common share and one share purchase warrant exercisable at $0.50 per share for a period of 18 months.

i) At September 30, 2016, the Company received share subscriptions of $47,000.

(Expressed in Canadian dollars)

12. SHARE PURCHASE WARRANTS

The following table summarizes information about the warrants issued for the year ended September 30, 2016:

	Number of warrants	Weighted average exercise price
Outstanding, September 30, 2014	–	$ –
Issued	4,408,730	0.16
Outstanding, September 30, 2015	4,408,730	0.16
Issued	2,032,000	0.48
Outstanding, September 30, 2016	**6,440,730**	**$ 0.26**

As at September 30, 2016, the weighted average remaining contractual life of the share purchase warrants was 0.641 years and the weighted average exercise price was $0.26.

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

Exercise Price	Expiry date	Warrants outstanding
$ 0.25	April 22, 2017	736,600
$ 0.25	May 1, 2017	1,072,130
$ 0.50	April 1, 2017	540,000
$ 0.50	April 16, 2017	108,000
$ 0.10	April 30, 2017	2,600,000
$ 0.50	May 19, 2017	500,000
$ 0.40	November 23, 2017	500,000
$ 0.50	August 19, 2017	324,000
$ 0.50	December 16, 2017	60,000
	Total	6,440,730

(Expressed in Canadian dollars)

13. 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 the TSX Venture 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, 2014	–	$ –
Granted	1,200,000	0.10
Outstanding, September 30, 2015	1,200,000	0.10
Options expired	(380,000)	0.10
Outstanding, September 30, 2016	**820,000**	**$ 0.10**

Additional information regarding stock options outstanding as at September 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 $
820,000	3.51	$ 0.10	820,000	$ 0.10

The fair value of stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2016	2015
Risk-free interest rate	N/A	0.73%
Expected life (in years)	N/A	5
Expected volatility	N/A	120%

The fair value of stock options vested during the year ended September 30, 2016, was $Nil (2015 - $98,896). The weighted average fair value of stock options granted during the year ended September 30, 2016 was $Nil (2015 - $0.08).

14. SHARES IN ESCROW

Pursuant to an escrow agreement dated January 21, 2016, 11,229,110 common shares held by directors and officers of the Company were placed in escrow. Pursuant to the agreement, upon the listing date of the common shares on the CSE, 10% of the shares subject to the escrow agreement will be released, and every 6 months thereafter, 15% of the original shares taken to escrow will be released. As at September 30, 2016, 11,229,110 common shares remain in escrow. Subsequent to year end, on November 24, 2016, the common shares were listed on the CSE and 1,122,911 common shares were released from escrow.

15. 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 investment, 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.

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 September 30, 2016, the Company had a working capital deficiency of $145,994 (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 September 30, 2016, the Company did not have any financial instruments subject to significant interest rate risk.

(Expressed in Canadian dollars)

15. RISK MANAGEMENT (continued)

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.

16. DIRECT COSTS

		Year ended September 30, 2016		Year ended September 30, 2015
Direct wages and benefits	**$**	**388,495**	$	401,634
Commission and promotion costs		**176,627**		146,622
IELTS testing fees		**-**		278,942
Other (a)		**403,070**		272,216
Occupancy costs (b)		**127,193**		123,198
Bank and credit card charges (b)		**17,783**		43,390
Total	**$**	**1,113,168**	$	1,266,002

(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.

17. 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.

At October 30, 2015, ILI had net liabilities of $63,625. During the year ended September 30, 2016, the Company recognized impairment of intangible assets in the amount of $136,273, which includes an impairment of the ILI trade name of $200,000, offset by a gain on disposal of ILI for $63,727.

(Expressed in Canadian dollars)

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

International Language Institute Ltd.		September 30, 2016		September 30, 2015
ASSETS				
Current				
Cash	$	–	$	8,965
Accounts receivable		–		18,010
Prepaid expenses		–		2,195
Inventory		–		14,000
		–		43,170
Non-current assets				
Property and equipment		–		71,800
TOTAL ASSETS	$	–	$	114,970
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	–	$	142,822
Deferred revenue		–		38,030
TOTAL LIABILITIES	$	–	$	180,852

International Language Institute Ltd.		Year ended September 30, 2016		Year ended September 30, 2015
Revenue				
Tuition fees	$	–	$	657,517
Testing and other income		–		80,002
				737,519
Direct costs		(24,603)		(877,439)
		(24,603)		(139,920)
Expenses				
Depreciation		–		21,599
Insurance		–		10,720
Marketing and advertising		–		30,715
Professional fees		213		16,454
Salaries and benefits		37,941		457,616
		38,154		537,104
Net loss and comprehensive loss for the year	$	(62,757)	$	(677,024)

(Expressed in Canadian dollars)

18. COMMITMENTS

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

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

2017	$ 134,016
2018	11,168
	$ 145,184

19. INCOME TAXES

The Company and its subsidiaries are subject to income taxes in Canada on its taxable income as reported in its statutory accounts at a tax rate in accordance with the relevant income tax laws.

a) Income tax expenses

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2016	2015
Statutory tax rate	**26%**	26%
Income tax recovery at statutory rate	**$ (257,000)**	$ (409,000)
Increase (reduction) in income taxes:		
Non-deductible items	–	26,000
Financing fees	**(5,000)**	(16,000)
Change in estimate	**201,000**	–
Change in tax assets not recognized	**61,000**	399,000
Total income tax recovery	**$ –**	$ –

b) Deferred income taxes

Deferred income taxes result primarily from differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. The Company has temporary differences between the tax and accounting bases of assets. The temporary differences that give rise to deferred income tax assets (liabilities) at September 30, 2016, and 2015, are as follows:

	2016	2015
Deferred tax assets and liabilities		
Non-capital losses carried forward	**$ 374,000**	$ 369,000
Property and equipment	**77,000**	73,000
Intangible assets and goodwill	**128,000**	76,000
Share issue costs	**13,000**	13,000
Deferred tax asset not recognized	**(592,000)**	(531,000)
Net deferred tax assets (liabilities)	**$ –**	$ –

As at September 30, 2016, the Company has non-capital losses carried forward of approximately $1,439,000, which begin to expire in 2033.

20. SUBSEQUENT EVENTS

a) On November 25, 2016, the Company completed its initial public offering (the "Offering") of 2,035,000 units of the Company at $0.25 per unit for aggregate gross proceeds of $508,750. Each unit is comprised of one common share and one-half of one warrant. Each whole warrant is exercisable to purchase one common share at $0.50 per share until May 25, 2018. In connection with the Offering, the Company paid the agent a commission of $45,788 and 183,150 warrants exercisable at $0.25 per share until May 25, 2018. The common shares of the Company were listed on the Canadian Securities Exchange (the "CSE") and started trading on December 1, 2016, under the symbol “CNI”.

b) Subsequent to September 30, 2016, the Company issued 400,000 shares pursuant to the exercise of 400,000 warrants for gross proceeds of $40,000.