CLOUD NINE EDUCATION GROUP LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended March 31, 2017 and 2016

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

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

	March 31, 2017	September 30, 2016
ASSETS		
Current		
Cash	$ 43,774	$ –
Available-for-sale investment	1	1
Accounts receivable	45,426	65,240
Bond deposit	-	27,600
Prepaid expenses	74,292	17,635
Inventory	7,262	10,368
	170,755	120,844
Non-current assets		
Deferred financing cost	-	115,504
Property and equipment (Note 3)	5,593	6,793
Intangible assets (Note 4)	260,990	274,172
	260,990	396,469
TOTAL ASSETS	437,338	$ 517,313
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 193,436	$ 317,700
Deferred revenue	54,492	79,492
Loans payable (Notes 5)	181,059	172,750
Convertible debenture (Note 6)	300,000	299,758
	728,987	869,700
Non-current liabilities		
Long-term liabilities (Note 7)	177,947	177,947
	177,947	177,947
TOTAL LIABILITIES	906,934	1,047,647
DEFICIENCY		
Share capital (Note 8)	1,031,331	565,791
Reserves	1,466,910	1,449,356
Subscriptions received (Note 8)	83,000	47,000
Deficit	(3,050,837)	(2,592,481)
TOTAL DEFICIENCY	(469,596)	(530,334)
TOTAL LIABILITIES AND DEFICIENCY	$ 437,338	$ 517,313

Going concern (Note 1)
These interim consolidated financial statements were authorized for issuance by the Board of Directors on May 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 interim consolidated financial statements.

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

	Three months ended March 31, 2017	Three months ended March 31, 2016	**Six months ended March 31, 2017**	Six months ended March 31, 2016
Revenue				
Tuition fees	**$ 219,493**	$ 180,845	**$ 334,982**	$ 389,237
Other income	**13,920**	34,912	**29,975**	66,557
	230,413	215,757	**364,958**	455,794
Direct costs (Note 14)	**(277,531)**	(220,746)	**(511,295)**	(458,860)
	(64,118)	(4,989)	**(146,337)**	(3,066)
Expenses				
Consulting fees	**59,700**	-	**104,350**	-
Depreciation	**600**	1,200	**1,200**	1,800
Exchange and filing fees	**11,169**	8,380	**30,603**	8,380
Insurance	**3,551**	566	**5,510**	5,712
Marketing and advertising	**9,317**	6,107	**21,047**	23,577
Professional fees	**35,285**	41,576	**45,580**	78,999
Salaries and benefits	**50,987**	123,996	**103,487**	213,222
	170,609	195,418	**311,777**	363,614
Loss before other expenses	**(234,727)**	(200,407)	**(458,114)**	(366,680)
Other expenses				
Impairment of intangible assets	**-**	-	**-**	(136,273)
Interest expense	**-**	(230)	**(242)**	(21,061)
Loss from continuing operations	**(234,727)**	(200,637)	**(458,356)**	(524,014)
Loss from discontinued operations	**-**	**-**	**-**	(62,757)
Net loss and comprehensive loss for the period	**(234,727)**	(200,637)	**(458,356)**	(586,771)
Basic and diluted loss per share – continuing operations	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.02)
Basic and diluted loss per share – discontinued operations	**$ (0.00)**	$ (0.01)	**$ (0.00)**	$ (0.00)
Weighted average number of shares outstanding	**31,175,067**	29,447,672	**31,490,809**	28,945,822

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

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

	Share capital					Subscriptions				
	Number		Amount		Reserves		received		Deficit		Total
Balance at September 30, 2015 (Unaudited)	27,209,210	$	2	$	1,441,145	$	15,000	$	(1,602,807)	$	(61,660)
Shares 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 year	-				-				(386,134		(386,134)
Balance at December 31, 2015	29,669,210	$	483,618	$	1,449,529	$	15,000	$	(1,988,941)	$	(44,794)
Balance at September 30, 2016	**29,669,210**	**$**	**565,791**	**$**	**1,449,356**	**$**	**47,000**	**$**	**(2,592,481)**	**$**	**(530,334)**
Units issued for cash – net of costs	2,035,000		508,750								508,750
Shares issued for warrants	400,000		40,000				(20,000)				-
Share issuance costs			(209,656)								(209,656)
Fair value of agent's warrants			(17,554)		17,554						-
Net loss for the period									(223,629)		(263,629)
Balance at December 31, 2016	**32,104,210**	**$**	**887,331**	**$**	**1,466,910**	**$**	**27,000**	**$**	**(2,816,110)**	**$**	**(434,869)**
Units issued for cash	**416,000**		**104,000**								**104,000**
Shares issued for warrants			**40,000**								**40,000**
Net loss for the period									**(234,727)**		**(234,727)**
Subscriptions received							**56,000**				**56,000**
Balance at March 31, 2017	**32,520,210**		**1,031,331**		**1,466,910**		**83,000**		**(3,050,837)**		**(469,596)**

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

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

	Six months ended March 31, 2017	Six months ended March 31, 2016
Cash flows from operating activities		
Net loss for the period	**$ (458,356)**	**$ (586,771)**
Items not affecting cash:		
Depreciation	**27,200**	**1,800**
Impairment of intangible assets	**-**	**136,273**
Accrued interest	**224**	**1,101**
Changes in non-cash working capital items:		
Accounts receivable	**19,814**	**(73,234)**
Prepaid expenses	**58,847**	**23,322**
Inventory	**3,106**	**(902)**
Accounts payable and accrued liabilities	**(124,264)**	**(27,500)**
Deferred revenue	**(25,000)**	**105,592**
	(498,429)	**(420,319)**
Cash flows from investing activities		
Digital curriculum development costs	**(12,818)**	**(33,813)**
Proceeds from disposal of subsidiary	**-**	**102**
	(12,818)	**(33,711)**
Cash flows from financing activities		
Proceeds from issuance of units - net	**483,094**	**457,000**
Proceeds from share subscriptions	**36,000**	**15,000**
(Repayment of) proceeds from loans payable	**8,327**	**(11,541)**
Proceeds from bond	**27,600**	**-**
	555,021	**460,459**
Increase in cash	**43,774**	**6,429**
Cash, beginning of period	**-**	**12,873**
Cash, end of period	**43,774**	**$ 19,302**
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 ILI Cloud 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 900-549 Howe Street, Vancouver, British Columbia, V6C 2C2.

b) Going concern

The Company has incurred a net loss of $458,356 (2016 - $586,771) during the six months ended March 31, 2017. As at March 31, 2017, the Company had a negative working capital of $558,232 (2016 - $265,147) and an accumulated deficit of $3,050,837 (2016 - $2,189,578). 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 interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(Expressed in Canadian dollars)

3. PROPERTY AND EQUIPMENT

Cost		**Leasehold improvements**
Balance, September 30, 2016 and March 31, 2016	$	12,788

Accumulated depreciation		**Leasehold improvements**
Balance, September 30, 2016	$	5,995
Depreciation		1,200
Balance, March 31, 2017	$	7,195

Net carrying amounts		**Leasehold improvements**
Balance, September 30, 2016	$	11,588
Balance, March 31, 2017	$	5,593

4. INTANGIBLE ASSETS

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

		Curriculum
Balance, September 30, 2016	$	274,172
Additions		12,818
Amortization		(26,000)
Balance, March 31, 2017	$	260,990

5. RELATED PARTY TRANSACTIONS

a) At March 31, 2017, the Company was indebted to the Chief Executive Officer ("CEO") of the Company for $48,085 (September 30, 2016 - $nil), which is non-interest bearing, unsecured and due on demand.

b) At March 31, 2017, 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 December 1, 2016 for a one-time interest charge of $20,000.

c) At March 31, 2017, the Company was indebted to a director of the Company for $26,000 (September 30, 2016 - $26,000), pursuant to a promissory note dated August 12, 2015. The amount is unsecured, and was due on September 12, 2015. 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.

d) During the six months ended March 31, 2017, the Company paid salaries and benefits of $60,000 (2016 - $60,000) to the CEO of the Company, and $45,000 (2016 - $45,000) to the Company controlled by the Chief Financial Officer ("CFO") of the Company.

6. 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 three months ended December 31, 2016, the Company recognized accretion of the discount on the convertible debenture of $242. At December 31, 2016, the carrying value of the convertible debenture was $300,000. The Company is in negotiation with the Holder on revising the terms of the convertible debenture agreement.

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 March 31, 2016, $177,947 (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 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.

b) At March 31, 2017, the Company received share subscriptions of $83,000

(Expressed in Canadian dollars)

9. SHARE PURCHASE WARRANTS

The following table summarizes information about the warrants issued for the six months ended March 31, 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
Issued	183,150	0.25
Exercised	(592,000)	0.10
Outstanding, March 31, 2017	6,031,880	

The following table summarizes information about warrants outstanding as at March 31, 2017:

Exercise Price	Expiry date	Warrants outstanding
$ 0.10	April 30, 2017	1,800,000
$ 0.25	May 1, 2017	1,072,130
$0.50	April 22, 2017	736,600
$ 0.50	April 1, 2017	540,000
$ 0.50	April 16, 2017	108,000
$ 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
$ 0.50	May 25, 2018	183,150
$ 0.50	August 22, 2018	208,000
	Total	6,031,880

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.

(Expressed in Canadian dollars)

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

	Number of stock options	Weighted average exercise price
Outstanding, September 30, 2016	820,000	0.10
Options expired	-	0.10
Outstanding, March 31, 2017	820,000	$ 0.10

Additional information regarding stock options outstanding as at March 31, 2017 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

11. 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.

12. 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.

12. 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 March 31, 2017, the Company had negative working capital of $558,232 (2016 - $528,644). 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 March 31, 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)

13. COMMITMENTS

As at March 31, 2016, the Company had one lease for school facilities, located in Vancouver.

The future minimum lease payments, including operating costs and taxes, as of March 31, 2016, under the Vancouver lease are:

2017	$	67,782
2018		44,672
	$	112,454

14. DIRECT COSTS

		Six months ended March 31, 2017		Six months ended March 31, 2016
Salaries and benefits	**$**	197,541	$	117,537
Amortization of curriculum		26,000		-
Commission and promotion costs		82,534		110,487
Other (a)		129,221		157,756
Occupancy costs (b)		67,458		63,610
Bank charges (b)		7,540		9,470
Total	**$**	511,295	$	458,860

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

15. SUBSEQUENT EVENTS

a) On April 4, 2017, the Company granted 1.8 million stock options to certain directors, officers, consultants and employees of the company. The stock options are exercisable for a period of five years at an exercise price of 14 cents per share.

b) On May 8, 2017, the Company closed the second tranche of its non-brokered private placement and issued 1,257,200 units for gross proceeds of $176,008.

c) May 29, 2017, the Company closed the third tranche of its non-brokered private placement and issued 178,571 units for gross proceeds of $25,000.