CLOUD NINE EDUCATION GROUP LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

MORGAN & COMPANY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Cloud Nine Education Group Ltd.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Cloud Nine Education Group Ltd., which comprise the consolidated statements of financial position as at September 30, 2017 and 2016, 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, 2017 and 2016, 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 26, 2018	Chartered Professional Accountants

CLOUD NINE EDUCATION GROUP LTD.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

		September 30, 2017		September 30, 2016
ASSETS				
Current				
Cash	**$**	**23,422**	$	-
Available-for-sale investment		**1**		1
Accounts receivable		**53,091**		65,240
Bond deposit		**-**		27,600
Prepaid expenses		**65,232**		17,635
Inventory		**3,263**		10,368
		145,009		120,844
Non-current assets				
Deferred financing cost		**-**		115,504
Property and equipment (Note 3)		**-**		6,793
Intangible assets (Note 4)		**245,027**		274,172
		245,027		396,469
TOTAL ASSETS	**$**	**390,036**	$	517,313
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**253,055**	$	317,700
Deferred revenue		**48,200**		79,492
Loans payable (Note 5)		**211,920**		172,750
Convertible debenture (Note 6)		**225,000**		299,758
		738,175		869,700
Non-current liabilities				
Convertible debentures (Note 6)		**274,000**		-
Long-term liabilities (Note 7)		**174,265**		177,947
		448,265		177,947
TOTAL LIABILITIES		**1,186,440**		1,047,647
DEFICIENCY				
Share capital (Note 8)		**1,225,750**		565,791
Reserves		**1,663,200**		1,449,356
Subscriptions received (Note 8)		**27,000**		47,000
Deficit		**(3,712,354)**		(2,592,481)
TOTAL DEFICIENCY		**(796,404)**		(530,334)
TOTAL LIABILITIES AND DEFICIENCY	**$**	**390,036**	$	517,313

Going concern (Note 1)
Subsequent events (Note 16)

These consolidated financial statements were authorized for issuance by the Board of Directors on January 26, 2018. They are signed on behalf of the Board of Directors by:

"Allan Larmour" (Signed)	*"Dalton Larson" (Signed)*
Director	Director

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

CLOUD NINE EDUCATION GROUP LTD.
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended September 30, 2017	Year ended September 30, 2016
Revenue		
Tuition fees	$ **758,981**	$ 724,060
Curriculum sales	**15,000**	18,800
Other income	**82,104**	79,120
	856,085	821,980
Direct costs (Note 14)	**(1,194,250)**	(1,113,168)
	(338,165)	(291,188)
Expenses		
Depreciation	**6,793**	24,379
Exchange and filing fees	**40,080**	12,901
Insurance	**8,310**	9,261
Investor relations	**233,750**	-
Marketing and advertising	**51,967**	50,659
Professional fees	**71,832**	181,165
Salaries and benefits	**180,786**	210,970
Share-based payments (Note 5)	**164,700**	-
	758,218	489,335
Loss before other income and expenses	**(1,096,383)**	(780,523)
Other income and expenses		
Foreign exchange gain	**3,682**	18,298
Impairment of intangible assets	**-**	(136,273)
Interest expense	**(27,172)**	(28,419)
Loss from continuing operations	**(1,119,873)**	(926,917)
Loss from discontinued operations	**-**	(62,757)
Net loss and comprehensive loss for the year	$ **(1,119,873)**	$ (989,674)
Basic and diluted loss per share – continuing operations	$ **(0.03)**	$ (0.03)
Basic and diluted loss per share – discontinued operations	$ **(0.00)**	$ (0.00)
Weighted average number of shares outstanding	**32,869,823**	29,294,893

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

CLOUD NINE EDUCATION GROUP LTD.
Consolidated Statements of Changes in Deficiency
(Expressed in Canadian dollars)

	Share capital			Subscriptions		
	Number	**Amount**	**Reserves**	**received**	**Deficit**	**Total**
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)
Units issued for cash	3,678,771	710,615	51,144	(20,000)	-	741,759
Share issuance costs	-	(209,656)	-	-	-	(209,656)
Proceeds from exercise of warrants	800,000	80,000	-	-	-	80,000
Proceeds from exercise of options	500,000	43,100	(18,100)	-	-	25,000
Shares issued for settlement of loan payable	208,000	52,000	-	-	-	52,000
Fair value of agent's warrants	-	(16,100)	16,100	-	-	-
Share-based payments	-	-	164,700	-	-	164,700
Net loss for the year	-	-	-	-	(1,119,873)	(1,119,873)
Balance at September 30, 2017	**34,855,981**	**$ 1,225,750**	**$ 1,663,200**	**$ 27,000**	**$ (3,712,354)**	**$ (796,404)**

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

CLOUD NINE EDUCATION GROUP LTD.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

		Year ended September 30, 2017		Year ended September 30, 2016
Cash flows from operating activities				
Net loss for the year	**$**	**(1,119,873)**	$	(989,674)
Items not affecting cash:				
Accretion expense		**-**		1,758
Depreciation of property and equipment		**6,793**		4,795
Depreciation of intangible assets		**56,000**		19,584
Impairment of intangible assets		**-**		136,273
Share-based payments		**164,700**		-
Unrealized foreign exchange gain		**(3,682)**		(18,298)
Accrued interest		**27,172**		6,835
Changes in non-cash working capital items:				
Accounts receivable		**12,149**		43,828
Prepaid expenses		**(47,597)**		77,229
Inventory		**7,105**		(6,453)
Accounts payable and accrued liabilities		**(11,821)**		46,016
Deferred revenue		**(31,292)**		(33,160)
		(940,346)		(711,267)
Cash flows from investing activities				
Digital curriculum development costs		**(26,855)**		(80,045)
Proceeds from disposal of subsidiary		**-**		102
		(26,855)		(79,943)
Cash flows from financing activities				
Proceeds from issuance of units – net of issuance costs		**567,853**		472,000
Proceeds from exercise of warrants		**80,000**		-
Proceeds from exercise of options		**25,000**		-
Proceeds from bond		**27,600**		-
Net proceeds from (repayment of) loans payable		**91,170**		(4,913)
Proceeds from convertible debentures		**199,000**		300,000
Deferred financing costs		**-**		(35,750)
Proceeds from share subscriptions		**-**		47,000
		990,623		778,337
Increase (decrease) in cash		**23,422**		(12,873)
Cash, beginning of year		**-**		12,873
Cash, end of year	**$**	**23,422**	$	-
Supplemental cash flow information				
Cash paid for interest	**$**	**-**	$	-
Cash paid for taxes	**$**	**-**	$	-
Non-cash financing activities				
Agent's warrants issued	**$**	**16,100**	$	6,211
Residual value ascribed to warrants	**$**	**51,144**	$	-
Shares issued for settlement of loan payable	**$**	**52,000**	$	-

The accompanying notes are an integral part of these 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. 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 110, 668 Seymour Street, Vancouver, British Columbia, V6B 3K4.

b) Going concern

The Company has incurred a net loss of $1,119,873 (2016 - $989,674) during the year ended September 30, 2017. As at September 30, 2017, the Company had a working capital deficiency of $593,166 (2016 - $748,856) and an accumulated deficit of $3,712,354 (2016 - $2,592,481). 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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")	Wholly-owned subsidiary of BHR
English Canada World Organization Inc. ("EC")	Wholly-owned subsidiary of CNC

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, 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) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

Financial instruments include cash, available-for-sale investment, accounts receivable, 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, and accounts payable and accrued liabilities and loans payable are classified as other financial liabilities.

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:

- 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) 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.

j) 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.

k) 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.

l) Share capital

i) Non-monetary consideration

Agent's warrants issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. Proceeds from unit placements are allocated between shares and warrants issued using the residual method.

ii) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Share capital (continued)

ii) Share-based payments (continued)

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.

m) 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.

n) 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, 2017, 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.

(Expressed in Canadian dollars)

3. PROPERTY AND EQUIPMENT

Cost		Leasehold improvements
Balance, September 30, 2015, 2016 and 2017	**$**	**12,788**

Accumulated depreciation		Leasehold improvements
Balance, September 30, 2015	$	1,200
Depreciation		4,795
Balance, September 30, 2016		5,995
Depreciation		6,793
Balance, September 30, 2017	**$**	**12,788**

Net carrying amounts		Leasehold improvements
Balance, September 30, 2016	$	6,793
Balance, September 30, 2017	**$**	**-**

4. INTANGIBLE ASSETS

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

		Digital curriculum		Trade name		Total
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
Additions		26,855		–		26,855
Depreciation		(56,000)		–		(56,000)
Balance, September 30, 2017	**$**	**245,027**	**$**	**–**	**$**	**245,027**

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".

5. RELATED PARTY TRANSACTIONS

a) During the year ended September 30, 2017, the Company paid salaries and benefits of $110,000 (2016 - $120,000) to the former Chief Executive Officer ("CEO") of the Company, and $84,175 (2016 - $78,750) to a company controlled by the Chief Financial Officer ("CFO") of the Company. As at September 30, 2017, the Company was indebted to a company controlled by the CFO in the amount of $7,875 (2016 - $Nil).

b) At September 30, 2017, the Company was indebted to a former director of the Company for $100,000 (2016 - $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, 2017, the Company was indebted to a director of the Company for $26,000 (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. At September 30, 2017, there was accrued interest of $6,724 (2016 - $3,224).

d) At September 30, 2017, the Company was indebted to a shareholder of the Company for $3,600 (2016 - $3,600) of accrued interest on a promissory note, in which the principal was repaid during the year. During the year ended September 30, 2017, the Company recorded share-based payments of $18,100 (2016 - $Nil) related to stock options granted to the shareholder.

e) At September 30, 2017, the Company was indebted to a director (2016 – two directors) of the Company for loans totalling $3,750 (2016 - $6,750). The loans are unsecured, non-interest bearing, and due on demand.

f) At September 30, 2017, the Company was indebted to the former CEO of the Company for $82,170 (2016 - $Nil), which is non-interest bearing, unsecured and due on demand.

g) During the year ended September 31, 2017, the Company recorded share-based payments of $90,570 (2016 - $Nil) related to stock options granted to directors and officers of the Company.

6. CONVERTIBLE DEBENTURES

On July 10, 2017, the Company signed a 12% secured convertible debenture agreement with shareholders in the amount of $274,000. The convertible debentures (the "2017 Debentures") are due on February 28, 2019 and are repayable in full with accrued interest at 12% per annum on maturity. The Holder may at any time during the term convert all or part of the 2017 Debentures into Units at a conversion price of $0.14 per Unit, where each Unit consists of one common share of the Company. As at September 30, 2017, accrued interest of $6,400 (2016 - $Nil) on the 2017 Debentures was included in accrued liabilities.

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 (the "2016 Debenture") was 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 2016 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. On July 7, 2017, the Company repaid $75,000 to the shareholder.

6. CONVERTIBLE DEBENTURES (continued)

Upon issuance of the 2016 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 2016 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, 2017, the Company recognized accretion of the discount on the 2016 Debenture of $1,758. At September 30, 2017, the carrying value of the 2016 Debenture was $225,000 (2016 - $299,758). The Company is in negotiation with the Holder on revising the terms of the 2016 Debenture agreement. As at September 30, 2017, accrued interest on the 2016 Debenture of $20,630 (2016 - $Nil) was included in accrued liabilities.

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 September 30, 2017, $174,265 (2016 - $177,947) (104,253 GBP (2016 – 104,253 GBP)) 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) As at September 30, 2017, the Company had a total of $27,000 (2016 - $47,000) share subscriptions received in advance.

b) On September 29, 2017, the Company issued 500,000 shares at $0.05 per share through the exercise of stock options for gross proceeds of $25,000.

c) On May 19, 2017, the Company issued 178,571 units in a private placement at $0.14 per unit for gross proceeds of $25,000. Each unit consisted of one common share of the Company and one warrant, where each warrant is exercisable at $0.30 per share for a period of 24 months.

d) On May 5, 2017, the Company issued 1,257,200 units in a private placement at $0.14 per unit for gross proceeds of $176,008. Each unit consisted of one common share of the Company and one warrant, where each warrant is exercisable at $0.30 per share for a period of 24 months.

e) On February 21, 2017, the Company issued 400,000 shares through the exercise of warrants at $0.10 per share, for gross proceeds of $40,000. On February 21, 2017, the Company also issued 416,000 units in a private placement at $0.25 per unit for gross proceeds of $104,000. Each unit consisted of one common share of the Company and one-half warrant, where each full warrant is exercisable at $0.50 per share for a period of 18 months. Of the 416,000 units issued, 208,000 units were issued to an officer of the Company to settle loan payable of $52,000.

8. SHARE CAPITAL (continued)

B. Issued and outstanding (continued)

f) 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 incurred $209,656 share issuance costs, $45,788 of which was paid to the agent. The agent was also issued 183,150 warrants with a fair value of $16,100, determined using the Black-Scholes option pricing model based on the following assumptions: expected volatility – 74%, expected term – 1.5 years, risk-free interest rate – 0.66%, expected dividend yield – 0%. The agent's warrants are exercisable at $0.25 per share until May 25, 2018.

g) On October 6, 2016, the Company issued 400,000 shares at $0.10 per share through the exercise of warrants for gross proceeds of $40,000.

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) 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.

j) 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.

k) 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.

l) 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.

m) 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.

(Expressed in Canadian dollars)

9. SHARE PURCHASE WARRANTS

The following table summarizes information about the warrants issued for the year ended September 30, 2017:

	Number of warrants	Weighted average exercise price
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	2,844,421	0.38
Exercised	(800,000)	0.10
Expired	(5,080,730)	0.27
Outstanding, September 30, 2017	**3,404,421**	**$ 0.39**

As at September 30, 2017, the weighted average contractual life of the share purchase warrants was 0.983 years and the weighted average exercise price was $0.39.

The following table summarizes information about warrants outstanding as at September 30, 2017:

Exercise Price	Expiry date	Warrants outstanding
$ 0.40	November 23, 2017	500,000*
$ 0.50	December 16, 2017	60,000*
$ 0.50	May 25, 2018	1,017,500
$ 0.25	May 25, 2018	183,150
$ 0.50	August 22, 2018	208,000
$ 0.30	May 5, 2019	1,257,200
$ 0.30	May 19, 2019	178,571
	Total	3,404,421

*Subsequent to year end, these share purchase warrants expired unexercised.

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)

10. STOCK OPTIONS (continued)

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
Expired	(380,000)	0.10
Outstanding, September 30, 2016	820,000	0.10
Granted	2,500,000	0.12
Cancelled	(300,000)	0.13
Exercised	(500,000)	0.05
Outstanding, September 30, 2017	**2,520,000**	**$ 0.13**

The following table summarizes information about options outstanding and exercisable as at September 30, 2017:

Exercise Price	Expiry date	Options outstanding
$ 0.14	September 5, 2019	100,000
$ 0.10	April 22, 2020	720,000
$ 0.14	April 4, 2022	1,600,000
$ 0.14	July 26, 2022	100,000
	Total	2,520,000

As at September 30, 2017, the weighted average contractual life of the stock options was 3.865 years and the weighted average exercise price was $0.13.

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:

	2017	2016
Risk-free interest rate	**1.09% - 1.76%**	N/A
Expected life (in years)	**2 - 5**	N/A
Expected volatility	**84% - 99%**	N/A

The fair value of stock options granted during the year ended September 30, 2017 was $164,700 (2016 - $Nil)

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. As at September 30, 2017, 8,524,582 (2016 – 11,229,110) common shares remain in escrow. Subsequent to year end, 1,581,617 common shares were released from escrow.

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 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 31, 2017, the Company had working capital deficiency of $593,166 (2016 - $748,856). 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, 2017, the Company did not have any financial instruments subject to significant interest rate risk.

(Expressed in Canadian dollars)

12. 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.

13. COMMITMENTS

As at September 30, 2017, the Company had one lease for school facilities, located in Vancouver.

The future minimum lease payments, including operating costs and taxes, as of September 30, 2017, under the lease are:

2018	$	163,152
2019		180,173
2020		190,260
2021		63,420
	$	597,005

14. DIRECT COSTS

		Year ended September 30, 2017		Year ended September 30, 2016
Salaries and benefits	**$**	**406,497**	$	388,495
Depreciation of curriculum		**56,000**		-
Commission and promotion costs		**202,959**		176,627
Other (a)		**380,278**		403,070
Occupancy costs		**135,240**		127,193
Bank charges		**13,276**		17,783
Total	**$**	**1,194,250**	$	1,113,168

(a) Other direct costs include student housing commissions, course material, activity and other direct items.

(Expressed in Canadian dollars)

15. 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:

	2017	2016
Statutory tax rate	**26%**	26%
Income tax recovery at statutory rate	**$ (291,000)**	$ (257,000)
Increase (reduction) in income taxes:		
Non-deductible items	**43,000**	–
Financing fees	**(57,000)**	(5,000)
Change in estimate and rate change	**(156,000)**	201,000
Change in tax assets not recognized	**461,000**	61,000
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, 2017, and 2016, are as follows:

	2017	2016
Deferred tax assets and liabilities		
Non-capital losses carried forward	**$ 768,000**	$ 374,000
Property and equipment	**98,000**	77,000
Intangible assets and goodwill	**132,000**	128,000
Share issue costs	**55,000**	13,000
Deferred tax asset not recognized	**(1,053,000)**	(592,000)
Net deferred tax assets (liabilities)	**$ –**	$ –

As at September 30, 2017, the Company has non-capital losses carried forward of approximately $2,842,000, which expire from 2033 to 2037.

16. SUBSEQUENT EVENTS

a) In October 2017, the Company granted 1,000,000 options to an officer and a consultant. These options are exercisable for a period of five years at a price of $0.055 per share and vest immediately. All options have been exercised.

b) In November 2017, the Company granted 951,538 options to consultants. These options are exercisable for a period of five years at a price of $0.065 to $0.08 per share and vest immediately. 651,538 options have been exercised.

c) In December 2017, the Company granted 1,000,000 options to consultants. These options are exercisable for a period of five years at a price of $0.06 per share and vest immediately.

16. SUBSEQUENT EVENTS (continued)

d) In January 2018, the Company granted 400,000 options to a consultant. These options are exercisable for a period of five years at a price of $0.07 per share and vest immediately. All options have been exercised.