CLOUD NINE EDUCATION GROUP LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended March 31, 2018 and 2017

(Unaudited – Prepared by Management)

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

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

		March 31, 2018		September 30, 2017
ASSETS				
Current				
Cash	$	**17,792**	$	23,422
Available-for-sale investment		**1**		1
Accounts receivable		**182,875**		53,091
Prepaid expenses		**49,587**		65,232
Inventory		**-**		3,263
		250,255		145,009
Non-current assets				
Intangible assets (Note 3)		**222,389**		245,027
		222,389		245,027
TOTAL ASSETS	$	**472,644**	$	390,036
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	**393,359**	$	138,987
Deferred revenue		**148,200**		48,200
Loans payable (Notes 4)		**301,420**		211,920
Convertible debenture (Note 5)		**225,000**		225,000
		1,069,979		738,175
Non-current liabilities				
Convertible debenture (Note 5)		**274,000**		274,000
Long-term liabilities (Note 6)		**174,265**		174,265
		448,265		448,265
TOTAL LIABILITIES		**1,489,796**		1,186,440
DEFICIENCY				
Share capital (Note 7)		**1,446,748**		1,225,750
Reserves		**1,663,200**		1,663,200
Subscriptions received (Note 7)		**27,000**		27,000
Deficit		**(4,180,548)**		(3,712,354)
TOTAL DEFICIENCY		**(1,043,600)**		(796,404)
TOTAL LIABILITIES AND DEFICIENCY	$	**472,644**	$	390,036

Going concern (Note 1)
Subsequent events (Note 14)
These consolidated financial statements were authorized for issuance by the Board of Directors on May xx, 2018.
They are signed on behalf of the Board of Directors by:

"Allan Larmour" (Signed)
Director

"Dalton Larson" (Signed)
Director

The accompanying notes are an integral part of these 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, 2018	Three months ended March 31, 2017	Six months ended March 31, 2018	Six months ended March 31, 2017
Revenue				
Tuition fees	$ 203,652	$ 219,493	$451,826	$ 334,982
Curriculum sales	560	-	1,760	-
Other income	38,361	13,920	65,718	29,975
	242,633	230,413	519,304	364,958
Direct costs (Note 14)	(409,046)	(277,531)	(618,616)	(511,295)
	(166,413)	(64,118)	(99,312)	(146,337)
Expenses				
Investor relations	27,360	59,700	61,020	104,350
Depreciation	-	600	-	1,200
Exchange and filing fees	7,790	11,169	10,829	30,603
Insurance	2,799	3,551	2,799	5,510
Marketing and advertising	15,524	9,317	33,675	21,047
Professional fees	15,385	35,285	15,385	45,580
Stock based compensation	-	-	63,700	-
Salaries and benefits	82,847	50,987	153,434	103,487
	151,705	170,609	340,842	311,777
Loss before other expenses	(318,118)	(234,727)	(440,154)	(458,114)
Other expenses				
Interest expense	(21,640)	-	(28,040)	(242)
Loss from continuing operations	(339,758)	(234,727)	(468,194)	(458,356)
Loss from discontinued operations	-	-	-	-
Net loss and comprehensive loss for the period	(339,758)	(234,727)	(468,194)	(458,356)
Basic and diluted loss per share – continuing operations	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Basic and diluted loss per share – discontinued operations	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)
Weighted average number of shares outstanding	35,510,181	31,175,067	35,538,181	31,490,809

The accompanying notes are an integral part of these 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										
	Number		**Amount**		**Reserves**		**Subscriptions received**		**Deficit**		**Total**
Balance at September 30, 2016	29,669,210	$	565,791	$	1,449,356	$	47,000	$	(2,592,481)	$	(530,334)
Shares issued for cash	2,451,000		612,750		-		36,000		-		612,750
Fair value of agent's warrants	400,000		80,000				-		-		80,000
Share issuance costs	-		(209,656)		-		-		-		(209,656)
Fair value of agent's warrants	-		(17,554)		17,554		-		-		-
Net loss for the year	-				-				(458,356)		(458,356)
Balance at March 31, 2017	32,520,210	$	1,031,331	$	1,466,910	$	83,000	$	(3,050,837)	$	(469,596)
Balance at September 30, 2017	34,855,981	**$**	**1,225,750**	**$**	**1,663,200**	**$**	**27,000**	**$**	**(3,712,354)**	**$**	**(796,404)**
Units issued for cash – net of costs	2,051,538		221,000		-						221,000
Net loss for the period									(468,194)		(468,194)
Balance at March 31, 2018	**36,907,519**	**$**	**1,446,750**	**$**	**1,663,200**	**$**	**27,000**	**$**	**(4,180,548)**	**$**	**(1,043,600)**

The accompanying notes are an integral part of these 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, 2018		Six months ended March 31, 2017
Cash flows from operating activities				
Net loss for the period	**$**	**(468,194)**	$	**(223,629)**
Items not affecting cash:				
Depreciation		**30,000**		**13,600**
Accrued interest		**13,600**		**224**
Stock based payment		**63,700**		**-**
Changes in non-cash working capital items:				
Accounts receivable		**(129,784)**		**(15,778)**
Prepaid expenses		**15,645**		**40,037**
Inventory		**3,263**		**(1,893)**
Accounts payable and accrued liabilities		**126,704**		**(178,713)**
Deferred revenue		**100,000**		**57,000**
		(245,066)		**(277,596)**
Cash flows from investing activities				
Digital curriculum development costs		**(7,362)**		**(4,357)**
		(7,362)		**(4,357)**
Cash flows from financing activities				
Proceeds from issuance of units, net		**157,298**		**319,094**
Proceeds from bond deposit		**-**		**27,600**
Increase in loans payable		**89,500**		**(39,758)**
		246,798		**306,936**
Increase in cash		**(5,630)**		**24,982**
Cash, beginning of period		**23,422**		**-**
Cash, end of period	**$**	**17,792**	$	**24,982**
Supplemental cash flow information				
Cash paid for interest	**$**	**–**	$	**–**
Cash paid for taxes	**$**	**–**	$	**–**

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 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 110, 668 Seymour Street, Vancouver, British Columbia, V6B 3K4.

b) Going concern

The Company incurred a net loss of $468,194 (2017 - $458,365) during the period ended March 31, 2018. As at March 31, 2018, the Company had a working capital deficiency of $817,724 (2017 - $558,232) and an accumulated deficit of $4,180,548 (2017 - $3,050,837). 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

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), issued and outstanding as of February 28, 2015. The condensed interim financial statements do not include all the information for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2017, which have been prepared in accordance with IFRS.

The financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. 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. Operating results for the six months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year to end September 30, 2018.

Certain of the previous period figures have been reclassified to conform with the current year's presentation.

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

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) New standards and interpretations

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

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

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

3. INTANGIBLE ASSETS

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

(Expressed in Canadian dollars)

		Digital curriculum
Balance, September 30, 2017		245,027
Additions		7,362
Depreciation		(30,000)
Balance, March 31, 2018	**$**	**222,389**

4. RELATED PARTY TRANSACTIONS

a) During the six ended March 31, 2018, the Company paid or accrued salaries and benefits of $60,000 to the CEO of the Company, $60,000 (2017 - $30,000) to the COO of the Company and accrued management fees of $45,000 (2016 - $45,000) to a Company controlled by the Chief Financial Officer ("CFO") of the Company. The Company was indebted to the CEO for $55,000 (2017 - $Nil), $35,000 to the COO (2017 - $Nil) and $42,200 to a Company controlled by the CFO (2017 - $Nil).

b) At March 31, 2018, the Company was indebted to a former director of the Company for $100,000 (2017 - $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 March 31, 2018, 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 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 March 31, 2018, the Company recognized accrued interest of $6,724 (2017 - $3,224).

d) At March 31, 2018, the Company was indebted to a director of the Company for loan totalling $3,750 (2017 - $3,750). The loans are unsecured, non-interest bearing, and due on demand.

e) At March 31, 2018, the Company was indebted to the COO (former CEO) of the Company for $79,670 (2017 - $Nil), which is non-interest bearing, unsecured and due on demand.

5. CONVERTIBLE DEBENTURE

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 March 31, 2018, accrued interest of $2,000 (2016 - $Nil) on the 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 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. The Company is in negotiation with the Holder on revising the terms of the convertible debenture agreement. As at March 31, 2018, accrued interest of $36,630 (2017 - $Nil) on the Debentures was included in accrued liabilities.

(Expressed in Canadian dollars)

6. 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, 2018, $174,265 (2017 - $174,265) 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.

7. 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, 2018, the Company received share subscriptions of $27,000 (2017 - $27,000)

8. SHARE PURCHASE WARRANTS

The following table summarizes information about the warrants issued for the three months ended December 31, 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, 2017	**3,404,421**	**$ 0.26**
Expired	**(1,577,500)**	**0.25**
Exercised	**-**	**0.10**
Outstanding, March 31, 2018	**1,826,921**	**0.32**

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

(Expressed in Canadian dollars)

Exercise Price	Expiry date	Warrants outstanding
$ 0.25	May 25,2018	183,150
$0.50	August 22, 2018	208,000
$0.30	May 19, 2019	1,435,771
	Total	1,826,921

9. 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, 2017	2,720,000	0.13
Granted	2,951,538	0.07
Cancelled	(1,850,000)	0.10
Exercised	(1,881,538)	0.65
Outstanding, March 31, 2018	**1,940,000**	**$ 0.08**

Additional information regarding stock options outstanding as at December 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 $
1,940,000	3.50	$ 0.08	1,940,000	$ 0.08

10. 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.

11. RISK MANAGEMENT

i) Risk management overview

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

ii) Fair value of financial instruments

The fair values of cash, available-for-sale 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 March 31, 2018, the Company had a working capital deficiency of $817,724 (2017 - $$458,365). 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, 2018, 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. The Company does not pay out dividends.

(Expressed in Canadian dollars)

12. DIRECT COSTS

		Six months ended December 31, 2018	Six months ended March 31, 2017
Direct wages and benefits	**$**	**241,158**	197,541
Commission and promotion costs		**102,779**	82,534
Other (a)		**206,463**	129,221
Occupancy costs (b)		**35,158**	67,458
Amortization – curriculum		**30,000**	26,000
Bank and credit card charges (b)		**3,058**	7,540
Total	**$**	**618,616**	511,295

(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.

13. COMMITMENTS

As at March 31, 2018, the Company had one lease for school facilities, located in Vancouver, BC.

The future minimum lease payments, including operating costs and taxes, as of March 31, 2018, under the lease are:

2018	$	84,000
2019		159,996
2020		190,260
2021		63,420
	$	497,676