

CLOUD NINE EDUCATION GROUP LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended March 31, 2019 and March 31, 2018

(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, 2019	September 30, 2018
ASSETS		
Current		
Cash	\$ 7,638	\$ 89,161
Available-for-sale investment	1	1
Accounts receivable	-	22,429
	<u>7,639</u>	<u>111,591</u>
Non-current assets		
Intangible assets (Note 3)	<u>156,794</u>	<u>186,794</u>
TOTAL ASSETS	\$ 164,433	\$ 298,385
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 287,428	\$ 246,185
Loans payable (Note 4)	203,470	203,170
Convertible debenture (Note 5)	274,000	274,000
	<u>764,898</u>	<u>723,355</u>
Non-current liabilities		
Long-term liabilities (Note 6)	<u>174,265</u>	<u>174,265</u>
	<u>174,265</u>	<u>174,265</u>
TOTAL LIABILITIES	939,163	897,620
DEFICIENCY		
Share capital (Note 7)	1,802,976	1,757,975
Reserves	1,749,400	1,749,400
Subscriptions received (Note 7)	27,000	27,000
Deficit	(4,354,106)	(4,133,610)
TOTAL DEFICIENCY	<u>(774,730)</u>	<u>(599,235)</u>
TOTAL LIABILITIES AND DEFICIENCY	\$ 164,433	\$ 298,385

Going concern (Note 1)

Subsequent events (Note 12)

These consolidated financial statements were authorized for issuance by the Board of Directors on May xx, 2019.

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.

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

	Three months ended March 31, 2019	Three months ended March 31, 2018	Six months ended March 31, 2019	Six months ended March 31, 2018
Revenue				
Tuition fees	\$ -	\$ 203,652	\$ -	\$ 451,826
Curriculum sales	-	560	-	1,760
Other income	-	38,361	-	65,718
	-	242,633	-	519,304
Direct costs	(16,202)	(409,046)	(35,167)	(618,616)
	(16,202)	(166,413)	(35,167)	(99,312)
Expenses				
Investor relations	9,450	27,360	15,750	61,020
Exchange and filing fees	7,676	7,790	10,746	10,829
Insurance	-	2,799	-	2,799
Marketing and advertising	-	15,524	-	33,675
Professional fees	17,091	15,385	25,114	15,385
Stock based compensation	-	-	-	63,700
Salaries and benefits	58,874	82,847	118,527	153,434
	100,591	151,705	170,137	340,842
Loss before other expenses	(109,293)	(318,118)	(205,304)	(440,154)
Other expenses				
Interest expense	(7,500)	(21,640)	(15,192)	(28,040)
Net loss and comprehensive loss for the period	(116,793)	(339,758)	(220,496)	(468,194)
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)	\$ (0.01)
Weighted average number of shares outstanding	8,100,641	7,102,036	8,100,641	7,107,636

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)

(Unaudited – Prepared by Management)

	Share capital		Reserves	Subscriptions received	Deficit	Total
	Number	Amount				
Balance at September 30, 2017	6,971,196	\$ 1,225,750	\$ 1,663,200	\$ 27,000	\$ (3,712,354)	\$ (796,404)
Units issued for cash	330,307	193,000				221,000
Net loss for the period					(468,194)	(468,194)
Balance at March 31, 2018	7,301,506	1,418,750	1,663,200	27,000	(4,180,548)	(1,043,600)
Balance at September 30, 2018	8,056,504	\$ 1,757,975	\$ 1,749,400	\$ 27,000	\$ (4,133,610)	\$ (599,235)
Common shares issued for cash	90,000	45,000			-	45,000
Net loss for the period					(220,496)	(220,496)
Balance at March 31, 2019	8,146,504	\$ 1,802,976	\$ 1,749,400	\$ 27,000	(4,354,106)	(774,730)

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)

(Unaudited – Prepared by Management)

	Period ended March 31, 2019	Period ended March 31, 2018
Cash flows from operating activities		
Net loss for the period	\$ (220,496)	\$ (468,194)
Items not affecting cash:		
Depreciation of intangible assets	30,000	30,000
Share-based payments	-	63,700
Accrued interest	10,300	13,600
Changes in non-cash working capital items:		
Accounts receivable	22,429	(129,784)
Prepaid expenses	-	15,645
Inventory	-	3,263
Accounts payable and accrued liabilities	41,244	126,704
Deferred revenue	-	100,000
	<u>(116,523)</u>	<u>(245,066)</u>
Cash flows from investing activities		
Digital curriculum development costs	-	(7,362)
	<u>-</u>	<u>(7,362)</u>
Cash flows from financing activities		
Proceeds from issuance of common shares	45,000	157,298
Net proceeds from (repayment of) loans payable	(10,000)	89,500
	<u>35,000</u>	<u>246,798</u>
Increase (decrease) in cash	<u>(81,523)</u>	<u>(5,630)</u>
Cash, beginning of year	<u>89,161</u>	<u>23,422</u>
Cash, end of year	<u>\$ 7,638</u>	<u>\$ 17,792</u>
Supplemental cash flow information		
Cash paid for interest	\$ -	-
Non-cash financing activities		
Shares issued for debt	\$ -	\$ -

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

CLOUD NINE EDUCATION GROUP LTD.

Notes to Consolidated Financial Statements

For the Period Ended March 31, 2019

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

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 610-700 West Pender Street, Vancouver, British Columbia, V6C 1G8.

b) Going concern

The Company incurred a net loss of \$220,496 (2018 - \$468,194) during the six months ended March 31, 2019. As at March 31, 2019, the Company had a working capital deficiency of \$757,259 (December 31, 2018 - \$569,316) and an accumulated deficit of \$4,354,106 (2018 - \$3,840,790). The operating and cash flow results raise uncertainty about the ability of the Company to continue as a going concern. On April 3, 2019, the Company closed a non-brokered private placement, issuing a total of 8,640,546 units at 7.5 cents per unit for gross proceeds of \$648,040.96.

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 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 Canadian dollar.

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

Certain comparative figures have been reclassified to conform to the current year’s presentation.

CLOUD NINE EDUCATION GROUP LTD.

Notes to Consolidated Financial Statements

For the Period Ended March 31, 2019

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

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
English Canada World Organization Inc. (“EC”)	Wholly-owned subsidiary of BHR Capital Corp.

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 effective for annual periods beginning on or after January 1, 2018 or later years.

- New standard IFRS 9, “*Financial Instruments*”
- New standard IFRS 15 “*Revenue from Contracts with Customers*”
- New standard IFRS 16 “*Lease*”

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.

CLOUD NINE EDUCATION GROUP LTD.

Notes to Consolidated Financial Statements

For the Period Ended March 31, 2019

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

3. INTANGIBLE ASSETS

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

	Digital curriculum
Balance, September 30, 2018	\$ 186,794
Additions	-
Depreciation	(30,000)
Balance, March 31, 2019	\$ 156,794

4. RELATED PARTY TRANSACTIONS

- a) During the period ended March 31, 2019, the Company paid or accrued salaries and benefits of \$60,000 to the CEO of the Company, paid or accrued management fees of \$12,000 (2017 - \$22,500) to a Company controlled by the Chief Financial Officer (“CFO”) of the Company, and paid or accrued consulting fees of \$19,572 to a Company controlled by the Corporate Security of the Company.
- b) At December 31, 2018, the Company was indebted to a former director of the Company for \$100,000 (2018 - \$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, 2019, the Company was indebted to a director of the Company for \$26,000 (2017 - \$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, 2019, the Company recognized accrued interest of \$10,309 (2018 - \$6,724).
- d) At March 31, 2019, the Company was indebted to the former COO of the Company for a loan of \$67,170 (2017 - \$5,000), which bears 5% interest per annum.

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 \$0.70 per Unit, where each Unit consists of one common share of the Company. As at March 31, 2019, the debenture was not repaid and the Company is in negotiation on revising the terms of the repayment and accrued interest of \$41,830 (2017 - \$10,209) on the Debentures was included in accrued liabilities.

CLOUD NINE EDUCATION GROUP LTD.

Notes to Consolidated Financial Statements

For the Period Ended March 31, 2019

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

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, 2019, \$174,265 (2018 - \$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

During the period ended March 31, 2019

- 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 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.
- b) At March 31, 2019, the Company received share subscriptions of \$27,000 (2018 - \$27,000).
- c) On October 4, 2018, the Company issued 450,000 shares at a deemed value of \$0.10 per share.
- d) On February 20, 2019, Cloud Nine Education Group Ltd. consolidated all of the company's issued and outstanding common shares on the basis of one new common shares for every five old common shares.

8. SHARE PURCHASE WARRANTS

The following table summarizes information about the warrants issued for the period ended March 31, 2019:

	Number of warrants	Weighted average exercise price
Outstanding, September 30, 2018	1,435,771	\$ 0.30
Expired	-	
Outstanding, March 31, 2019	1,435,771	\$ 0.30

As at March 31, 2019, the weighted average contractual life of the share purchase warrants was 0.1 years and the weighted average exercise price was \$0.30.

CLOUD NINE EDUCATION GROUP LTD.

Notes to Consolidated Financial Statements

For the Period Ended March 31, 2019

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

The following table summarizes information about warrants outstanding as at March 31, 2019:

Exercise Price	Expiry date	Warrants outstanding
\$0.30	May 5, 2019	1,257,200
\$0.30	May 19, 2019	178,571
	Total	1,435,771

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 Canadian Stock Exchange. Options can have a maximum term of five years. Vesting of options is at the discretion of the Board of Directors at the time the options are granted.

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

	Number of stock options	Weighted average exercise price
Outstanding, September 30, 2018	649,000	0.65
Granted	-	-
Cancelled	(155,000)	-
Exercised	-	-
Outstanding, March 31, 2019	494,000	\$ 0.55

The following table summarizes information about options outstanding and exercisable as at March 31, 2019:

Exercise Price	Expiry date	Options outstanding
\$ 0.70	September 5, 2019	20,000
\$ 0.50	April 22, 2020	4,000
\$ 0.70	April 4, 2022	75,000
\$ 0.70	July 26, 2022	20,000
\$ 0.40	November 21, 2022	60,000
\$ 0.30	December 8, 2022	100,000
\$ 0.50	May 23, 2023	55,000
\$ 0.70	May 23, 2023	160,000
	Total	494,000

As at March 31, 2019, the weighted average contractual life of the stock options was 3.6 years and the weighted average exercise price was \$0.55.

CLOUD NINE EDUCATION GROUP LTD.

Notes to Consolidated Financial Statements

For the Period Ended March 31, 2019

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

10. SHARES IN ESCROW

Pursuant to an escrow agreement dated January 21, 2016, 2,245,822 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 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, 2019, the Company had a working capital deficiency of \$757,259 (2018 - \$569,316). 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

CLOUD NINE EDUCATION GROUP LTD.

Notes to Consolidated Financial Statements

For the Period Ended March 31, 2019

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

instruments. As at March 31, 2019, 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.

12. SUBSEQUENT EVENT

On April 3, 2019, the Company closed a non-brokered private placement, issuing a total of 8,640,546 units at 7.5 cents per unit for gross proceeds of \$648,040.96.

On April 16, 2019, the Company granted to certain consultants of the Company, an aggregate of 640,000 incentive stock options to purchase up to a total of 640,000 shares.