CLOUD NINE EDUCATION GROUP LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended June 30, 2020 and June 30, 2019

(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)

		June 30, 2020		September 30, 2019
ASSETS				
Current				
Cash	**$**	**16,440**	$	227,456
Available-for-sale investment		**1**		1
		16,441		227,457
Non-current assets				
Intangible assets (Note 3)		**72,004**		121,199
TOTAL ASSETS	**$**	**88,445**	$	348,656
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**319,013**	$	210,751
Income taxes payable		**18,140**		18,140
Payroll taxes payable		**1,505**		-
Loans payable (Note 4)		**169,500**		126,000
Convertible debenture (Note 5)		**274,000**		274,000
		782,158		628,891
Non-current liabilities				
Long-term liabilities (Note 6)		**174,265**		174,265
		174,265		174,265
TOTAL LIABILITIES		**956,423**		803,156
DEFICIENCY				
Share capital (Note 7)		**2,467,959**		2,451,016
Reserves		**1,852,108**		1,811,500
Subscriptions received (Note 7)		**27,000**		27,000
Deficit		**(5,215,046)**		(4,744,016)
TOTAL DEFICIENCY		**(867,979)**		(454,500)
TOTAL LIABILITIES AND DEFICIENCY	**$**	**88,445**	$	348,656

Going concern (Note 1)
Subsequent events (Note 12)

These consolidated financial statements were authorized for issuance by the Board of Directors on August 27, 2020.

They are signed on behalf of the Board of Directors by:

"Allan Larmour" (Signed)	*"Kulwant Sandher" (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)
(Unaudited – Prepared by Management)

	Three months ended June 30, 2020	Three months ended June 30, 2019	Nine months ended June 30, 2020	Nine months ended June 30, 2019
Revenue				
Tuition fees	$ -	$ -	$ -	$ -
Curriculum sales	-	-	9,870	-
Other income	-	-	-	-
	-	-	9,870	-
Direct costs	(17,019)	(16,038)	(51,555)	(51,205)
	(17,019)	(16,038)	(41,685)	(51,205)
Expenses				
Consulting fees	-	8,600	218,000	8,600
Exchange and filing fees	4,134	25,875	15,262	36,621
Investor relations	-	19,530	12,109	35,280
Professional fees	9,031	3,513	27,692	28,627
Salaries and benefits	-	79,400	85,277	197,927
Stock based compensation	-	83,100	47,400	83,100
Travel	-	201	693	201
	13,165	220,219	406,433	390,356
Loss before other expenses	(30,184)	(236,257)	(448,118)	(441,561)
Other expenses				
Interest expense	(7,609)	(8,675)	(22,911)	(23,867)
Net loss and comprehensive loss for the period	(37,793)	(244,932)	(471,029)	(465,428)
Basic and diluted loss per share	(0.00)	(0.1)	(0.03)	(0.05)
Weighted average number of shares outstanding	16,843,279	16,595,038	16,824,605	10,206,279

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			Subscriptions		
	Number	Amount	Reserves	received	Deficit	Total
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 debt	90,000	45,000				45,000
Private placement	8,640,546	648,041				648,041
Share-based payments			83,100			83,100
Net loss for period					(465,428)	(465,428)
Balance at June 30, 2019	16,787,050	2,451,016	1,832,500	27,000	(4,599,038)	(288,522)
Balance at September 30, 2019	16,787,047	$ 2,451,016	$ 1,811,500	$ 27,000	$ (4,744,016)	$ (454,500)
Options exercised	70,000	16,492	(6,792)		-	10,150
Share-based payments			47,400		-	47,400
Net loss for the period					(471,029)	(471,029)
Balance at June 30, 2020	**16,857,047**	**$ 2,467,958**	**$ 1,852,108**	**$ 27,000**	**(5,215,045)**	**(867,979)**

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 June 30, 2020		Period ended June 30, 2019
Cash flows from operating activities				
Net loss for the period	**$**	**(471,029)**	$	(465,428)
Items not affecting cash:				
Depreciation of intangible assets		**49,195**		45,000
Share-based payments		**47,400**		83,100
Accrued interest		**7,693**		(67,170)
Changes in non-cash working capital items:				
Accounts receivable		**-**		22,429
Prepaid expenses		**-**		-
Inventory		**-**		-
Accounts payable and accrued liabilities		**102,075**		(51,001)
Deferred revenue		**-**		-
		(264,666)		(433,070)
Cash flows from investing activities				
Digital curriculum development costs		**-**		-
		-		-
Cash flows from financing activities				
Proceeds from issuance of common shares		**10,150**		693,041
Net proceeds from (repayment of) loans payable		**43,500**		(10,000)
		53,650		683,041
Increase (decrease) in cash		**(211,016)**		249,971
Cash, beginning of year		**227,456**		89,161
Cash, end of year	**$**	**16,440**		339,132

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

b) Going concern

The Company incurred a net loss of $471,029 (2019 - $465,428) during the nine months ended June 30, 2020. As at June 30, 2020, the Company had a working capital deficiency of $765,718 (September 30, 2019 - $401,434) and an accumulated deficit of $5,215,045 (September 30, 2019 - $4,744,016). 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies and methods of computation applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended September 30, 2019.

The condensed consolidated 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, 2019, which have been prepared in accordance with IFRS.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value. In addition, theses condensed consolidated interim 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.

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.

(Expressed in Canadian dollars)

3. INTANGIBLE ASSETS

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

		Digital curriculum
Balance, September 30, 2019	$	121,200
Additions		-
Depreciation		(49,196)
Balance, June 30, 2020	**$**	**72,004**

4. RELATED PARTY TRANSACTIONS

a) During the three and nine months ended June 30, 2020, the Company incurred $nil and $60,000 in management fees to the CEO of the company. The company also incurred $9,031 and $27,692 respectively in professional fees to a company controlled by the CFO of the Company.

b) As at June 30, 2020, the Company was indebted to a former director of the Company for $100,000 (2019 - $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) As at June 30, 2020, the Company was indebted to a director of the Company for $26,000 (September 30, 2019 - $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 June 30, 2020, the Company recognized accrued interest of $14,985 (September 30, 2019 - $12,642).

d) During the nine months ended June 30, 2020, the Company recorded share-based payments of $9,875 (2019 - $nil) related to stock options granted to directors and officers of the Company.

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. At June 30, 2020, accrued interest of $32,204 (September 30, 2019 - $11,636) 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 $1.25 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 $2.50 per share for 18 months. On July 7, 2017, the Company paid back $75,000 principal and the remaining $225,000 was due. On July 19, 2018, the Company paid back the full amount of $225,000 plus accrued interest and the General Security Agreement was released related to the sale of Cloud Nine College Ltd.

(Expressed in Canadian dollars)

6. LONG-TERM LIABILITIES

During the period ended June 30, 2020, the Company received a $40,000 loan through the Canada Emergency Business Account program of the Canadian Federal Government. The loan is intended to help businesses to fund its operations as it goes through the Covid-19 pandemic. The interest rate of the loan is 0% until December 31, 2022. The Company is entitled to a 25% credit if the loan is repaid on or before December 31, 2022 ("term"). If the loan is not repaid by the end of the term, the loan will carry an interest rate of 5% per annum beginning January 1, 2023 until December 31, 2025. As at June 30, 2020, the Company has not made a payment to the loan.

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 June 30, 2020, $174,265 (2019 - $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

i. 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.

ii. On November 5, 2019, the Company issued 70,000 shares at $0.145 per share through the exercise of stock options for gross proceeds of $10,150.

8. SHARE PURCHASE WARRANTS

The following table summarizes information about the warrants issued for the period ended June 30, 2020:

	Number of warrants	Weighted average exercise price
Outstanding, September 30, 2019	8,640,546	$ 0.23
Expired	-	
Outstanding, June 30, 2020	**8,640,546**	**$ 0.23**

As at June 30, 2020, the weighted average contractual life of the share purchase warrants was 0.74 years and the weighted average exercise price was $0.23.

The following table summarizes information about warrants outstanding as at June 30, 2020:

Exercise Price	Expiry date	Warrants outstanding
$0.15	March 28, 2021	4,320,273
$0.30	March 28, 2021	4,320,273
	Total	8,640,546

(Expressed in Canadian dollars)

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, 2019	1,114,000	0.318
Granted	720,000	0.056
Cancelled	(75,000)	0.70
Cancelled	(60,000)	0.40
Cancelled	(9,000)	0.50
Cancelled	(70,000)	0.70
Exercised	(70,000)	0.145
Outstanding, June 30, 2020	1,550,000	$ 0.19

The following table summarizes information about options outstanding and exercisable as at June 30, 2020:

Exercise Price	Expiry date	Options outstanding
$ 0.70	July 26, 2022	20,000
$ 0.30	December 8, 2022	100,000
$ 0.50	May 23, 2023	50,000
$ 0.70	May 23, 2023	90,000
$ 0.145	April 16, 2024	570,000
$ 0.12	October 25, 2024	720,000
	Total	1,550,000

As at June 30, 2020, the weighted average contractual life of the stock options was 3.85 years and the weighted average exercise price was $0.19.

(Expressed in Canadian dollars)

9. STOCK OPTIONS (continued)

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:

	2020
Risk-free interest rate	**1.57%**
Expected life	**5 years**
Expected volatility	**88%**

The fair value of stock options granted on October 25, 2019 was $47,400.

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. During the nine months ended June 30, 2020, 423,457 common shares were released from escrow, the balance remaining in Escrow was nil (September 30, 2019 – 423,457).

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.

(Expressed in Canadian dollars)

iv) Liquidity risk

v) Liquidity risk is the risk of the Company's inability to meet its financial obligations as they come due. As at June 30, 2020, the Company had a working capital deficiency of $765,718 (September 30, 2019 - $401,434). 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.

vi) Currency risk

The Company is not currently exposed to the financial risk related to the fluctuation of foreign exchange rates.

vii) 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 June 30, 2020, the Company did not have any financial instruments subject to significant interest rate risk.

viii) 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. DIRECT COSTS

	Nine months ended June 30, 2020	Nine months ended June 30, 2019
Depreciation of curriculum	**$ 49,196**	$ 45,000
Bank and credit card charges	**1,519**	365
Other	**841**	5,840
Total	**$ 51,555**	$ 51,205