# CLOUD NINE EDUCATION GROUP LTD.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

## NOTICE OF NO AUDITOR REVIEW OF

### UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATMENTS

In accordance with National instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the Interim Financial Statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

## Cloud Nine Education Group Ltd.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited - Expressed in Canadian dollars)

| | Notes | December 31, 2020 | September 30, 2020 |
|---|---|---|---|
| | | $ | $ |
| Assets | | | |
| Current | | | |
| Cash | | 20,670 | 2,537 |
| Marketable securities | | 1 | 1 |
| | | 20,671 | 2,538 |
| Intangible assets | 3 | 39,207 | 55,606 |
| | | 59,878 | 58,144 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 5,6 | 390,212 | 372,550 |
| Income taxes payable | | 18,140 | 18,140 |
| Loans and borrowings | 4,6 | 129,500 | 129,500 |
| Convertible debenture | 5 | 274,000 | 274,000 |
| | | 811,852 | 794,190 |
| Loans and borrowings | 4 | 206,152 | 197,507 |
| | | 1,018,004 | 991,697 |
| Shareholders' equity | | | |
| Share capital | 7 | 2,467,958 | 2,467,958 |
| Reserves | | 1,852,108 | 1,852,108 |
| Deficit | | (5,278,192) | (5,253,619) |
| | | (958,126) | (933,553) |
| | | 59,878 | 58,144 |

| | |
|---|---|
| Nature of operations and going concern | 1 |
| Subsequent events | 5, 13 |

Approved on behalf of the Board of Directors:

"Allan Larmour" (Signed)
Director

"Dalton Larson" (Signed)
Director

## Cloud Nine Education Group Ltd.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited - Expressed in Canadian dollars)

| | | Three months ended December 31, 2020 | 2019 |
|---|---|---|---|
| | | $ | $ |
| Curriculum sales | | - | 9,870 |
| Cost of sales | 3 | (16,691) | (17,541) |
| | | (16,691) | (7,671) |
| Expenses | | | |
| Consulting fees | | - | 214,000 |
| Exchange and filing fees | | 2,363 | 3,669 |
| Investor relations | | - | 12,109 |
| Professional fees | 6 | 7,875 | 7,391 |
| Salaries and benefits | 6 | - | 49,195 |
| Share-based compensation | 6, 9 | - | 47,400 |
| Travel | | - | 693 |
| | | 10,238 | 344,457 |
| Loss before other items | | (26,929) | (342,128) |
| Other items | | | |
| Government grant | 4(b) | 12,053 | - |
| Interest and accretion | | (9,697) | (7,693) |
| Net loss and comprehensive loss | | (24,573) | (349,821) |
| Basic and diluted loss per share | | (0.00) | (0.02) |
| Weighted average number of shares outstanding | | 16,857,050 | 16,830,419 |

## Cloud Nine Education Group Ltd.

Condensed Interim Consolidated Statements of Changes in Deficiency
(Unaudited - Expressed in Canadian dollars)

| | Share capital | | | | | |
|---|---|---|---|---|---|---|
| | Common shares | Amount | Reserves | Subscriptions received | Deficit | Total |
| | # | $ | $ | $ | $ | $ |
| Balance at September 30, 2020 | 16,857,050 | 2,467,958 | 1,852,108 | - | (5,253,619) | (933,553) |
| Net loss for the period | - | - | - | - | (24,573) | (24,573) |
| Balance at December 31, 2020 | 16,857,050 | 2,467,958 | 1,852,108 | - | (5,278,192) | (958,126) |
| | | | | | | |
| Balance at September 30, 2019 | 16,787,050 | 2,451,016 | 1,811,500 | 27,000 | (4,744,016) | (454,500) |
| Options exercised | 70,000 | 16,942 | (6,792) | - | - | 10,150 |
| Share-based compensation | - | - | 47,400 | - | - | 47,400 |
| Net loss for the period | - | - | - | - | (349,821) | (349,821) |
| Balance at December 31, 2019 | 16,857,050 | 2,467,958 | 1,852,108 | 27,000 | (5,093,837) | (746,771) |

## Cloud Nine Education Group Ltd.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

| | Three months ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| | $ | $ |
| Operating activities | | |
| Net loss for the period | (24,573) | (349,821) |
| Items not affecting cash | | |
| Amortization of intangible assets | 16,399 | 16,398 |
| Share-based compensation | - | 47,400 |
| Accrued interest and accretion expense | 9,697 | 7,693 |
| Government grant | (12,053) | - |
| Changes in non-cash working capital items: | | |
| Accounts payable and accrued liabilities | 8,663 | 37,157 |
| Income taxes payable | - | 1,506 |
| | (1,867) | (239,667) |
| Financing activities | | |
| Proceeds from exercise of options | - | 10,150 |
| Proceeds from a long-term loan | 20,000 | - |
| | 20,000 | 10,150 |
| (Decrease) increase in cash | 18,133 | (229,517) |
| Cash, beginning of period | 2,537 | 227,456 |
| Cash (bank indebtedness), end of period | 20,670 | (2,061) |

1. Nature of operations and going concern

(a) Nature of operations

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.

The Company’s principal business is the development and sale of its proprietary digital interactive English as a second language (“ESL”) curriculum called the Cloud Nine ESL Program (“Cloud Nine Curriculum”) to technical schools, universities, high schools and ESL providers in Canada and internationally. The Cloud Nine Curriculum is a digitally based curriculum that is hosted in the cloud and delivered through the Company’s website by utilizing the Google Education platform.

The common shares of the Company are listed on the Canadian Securities Exchange (the "Exchange") under the symbol “CNI”. The Company’s registered office is located at 10th Floor, 595 Howe Street, Vancouver, BC V6C 2T5 and its head office is located at 610 - 700 West Pender Street, Vancouver, British Columbia, V6C 1G8.

(b) Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred losses and negative operating cash flows since inception. As at December 31, 2020, the Company had accumulated deficit of $5,278,192 (September 30, 2020 - $5,253,619) and working capital deficiency of $751,974 (September 30, 2020 - $736,046). The continued operations of the Company are dependent on future profitable operations, management’s ability to manage costs and the availability of equity and debt financings. Management is committed to raising additional capital to meet its financial obligations and commitments, fund its growth initiatives, capital expenditures and sustain its operations in the normal course of business. Although the Company has raised funds in the past, there can be no assurance that the Company will be able to secure additional adequate financing.

These factors indicate the existence of material uncertainties that may cast significant doubt regarding the Company’s ability to continue as a going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Subsequent to December 31, 2020, the Company closed non-brokered private placements for aggregate gross proceeds of $4,033,792. In addition, the Company announced a proposed private placement to raise up to $5,000,000, subject to a 100% over-allotment option. Note 13

2. Significant accounting policies

(a) Basis of preparation

These condensed interim consolidated financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standards 34, “Interim Financial Reporting” (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The financial statements are presented in Canadian dollars and prepared in accordance with the same accounting policies, critical estimates and methods described in the Company’s annual audited financial statements. These financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements including the notes thereto, as at and for the year ended September 30, 2020.

(b) Basis of consolidation

The financial statements include the accounts of the Company and the following subsidiaries:

| Subsidiaries | Ownership | Jurisdiction |
|---|---|---|
| BHR Capital Corp. (“BHR”) | 100% | Canada |
| English Canada World | 100% | Canada |

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial results of the subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated on consolidation.

(c) Use of judgments and estimates

The preparation of the 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, liabilities, revenues and expenses. Actual results may vary from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

(Unaudited - Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(d) New accounting pronouncements

The following IFRS standard has been recently issued by the IASB. Pronouncements that are not expected to have a significant impact have been excluded.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendments to IAS 1 clarify the requirements relating to determining whether a liability should be presented as current or non-current in the statement of financial position. Under the new requirements, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

3. Intangible assets

The changes in the carrying amount of intangible assets are as follows:

| | Digital Curriculum |
|---|---|
| | $ |
| Balance, September 30, 2020 | 55,606 |
| Additions | - |
| Amortization | (16,399) |
| Balance, December 31, 2020 | 39,207 |

4. Loans and borrowings

(a) 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 December 31, 2020, $174,265 (September 30, 2020 - $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.

(b) The Company secured a loan in the aggregate amount of $60,000 from the Government of Canada under the Canada Emergency Business Account ("CEBA") Covid -19 relief loan. The loan carries no interest and matures on December 31, 2022. If the Company repays $40,000 of the loan on or before December 31, 2022, the remaining amount of $20,000 will be forgiven. If the loan is not repaid in full by December 31, 2022, it may be extended to December 31, 2025, at rate of 5% per annum.

(Unaudited - Expressed in Canadian dollars)

4. Loans and borrowings (continued)

The benefit of the government loan received at below market rate of interest is treated as government grant. As at December 31, 2020, the loan of $31,887 (September 30, 2020 - $23,242) was recognized and measured at fair value using the Company's incremental borrowing rate of 12% per annum. During the three months ended December 31, 2020, the Company recorded in other income the value of the grant of $12,053 which was the difference between the carrying amount of the loan and proceeds received. During the three months ended December 31, 2020, the Company recorded accretion expense of $698 on the loan (2019 - $Nil).

(c) During the year ended September 30, 2020, the Company received a $3,500 (2019 - $Nil) loan. The loan is non-interest bearing, unsecured and due on demand.

5. Convertible debentures

On July 10, 2017, the Company completed a non-brokered private placement of a 12% unsecured convertible debenture in the principal amount of $274,000 (the "2017 Debentures"). The 2017 Debentures matured on February 28, 2019 and bear interest at 12% per annum, payable on maturity. The 2017 Debentures are convertible into common shares of the Company at a price of $0.70 per share. As at December 31, 2020, accrued interests of $47,950 (September 30, 2020 - $39,111) on the 2017 Debentures were included in accounts payable and accrued liabilities.

On February 17, 2021, the debenture holders entered into an assignment agreement with respect to the 2017 Debentures, of which $21,950 was assigned to a related party. Pursuant to the assignment agreement and as approved by the Exchange, the conversion price was amended from $0.70 per share to $0.10 per share.

Subsequent to December 31, 2020, the 2017 Debentures including accrued interests were converted into 3,219,500 common shares of the Company.

6. Related party transactions

Key management compensation for the three months ended December 31, 2020 and 2019 consisted of:

(a) Compensation of key management personnel

| | Three months ended December 31, 2020 | 2019 |
|---|---|---|
| | $ | $ |
| CEO Salary | - | 30,000 |
| Professional fees paid to CFO | 7,500 | 6,300 |
| Share-based compensation (i) | - | 15,800 |

(1) During the three months ended December 31, 2020, the Company recorded share-based compensation of $Nil (2019 - $15,800) related to stock options granted to directors and officers of the Company.

(Unaudited - Expressed in Canadian dollars)

6. Related party transactions (continued)

(b) Related party balances

The following related party amounts are included in (i) loans and borrowings and (ii) accounts payable and accrued liabilities:

| | Three months ended December 31, | |
|---|---|---|
| | December 31, 2020 | September 30, 2020 |
| | $ | $ |
| (i) Loan from a former director [1] | 100,000 | 100,000 |
| (i) Loan from a director [2] | 26,000 | 26,000 |
| (ii) Due to directors and an officer [3] | 60,500 | 22,100 |

[1] The loan is pursuant to a promissory note dated September 30, 2014. The amount is unsecured, non-interest bearing and was due on September 30, 2015. The Company entered into an agreement to extend the maturity date of the loan to December 1, 2016, for a one-time interest charge of $20,000. The Company is in negotiation to revise the terms of the promissory note.

[2] Pursuant a promissory note, the amount is unsecured, due on demand and bears interest at 1% on the outstanding principal and interest, compounded monthly. A one-time interest charge of $1,000 is payable as the amount was not paid on the maturity date of September 12, 2015. At December 31, 2020, the Company recognized accrued interests of $16,551 (September 30, 2020 - $15,771).

[3] Amounts owed to related parties included in accounts payable and accrued liabilities are unsecured, non-interest-bearing and without fixed terms of repayment.

See note 5 for other related party transaction.

7. Share capital

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

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. The fair value of the options of $6,792 was reclassified from reserves to share capital on the exercise of these options.

(Unaudited - Expressed in Canadian dollars)

8. Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants outstanding follows:

| | Warrants | Weighted average exercise price |
|---|---|---|
| | # | $ |
| Balance, September 30, 2020 | 8,640,546 | 0.225 |
| Issued / Exercised / Expired | - | - |
| Balance, December 31, 2020 | 8,640,546 | 0.225 |

As at December 31, 2020, the weighted average contractual life of the share purchase warrants was 0.24 years and the weighted average exercise price was $0.225.

The following table summarizes the warrants outstanding as at December 31, 2020:

| Exercise Price | Expiry date | Warrants |
|---|---|---|
| $ | | # |
| 0.15 | March 28, 2021 | 4,320,273 |
| 0.30 | March 28, 2021 | 4,320,273 |
| | | 8,640,546 |

9. Stock options

The Company has an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, non-transferrable options to purchase common shares up to a maximum of 10% of the issued and outstanding common shares of the Company.

A summary of the status of the options outstanding follows:

| | Stock options | Weighted average exercise price |
|---|---|---|
| | # | $ |
| Balance, September 30, 2020 | 1,550,000 | 0.19 |
| Granted / exercised / cancelled | - | - |
| Balance, September 30, 2020 | 1,550,000 | 0.19 |

(Unaudited - Expressed in Canadian dollars)

9. Stock options (continued)

The following table summarizes the options outstanding and exercisable as at December 31, 2020:

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

As at December 31, 2020, the weighted average contractual life of the stock options was 3.35 years and the weighted average exercise price was $0.19.

10. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The Company uses the following hierarchy for determining fair value measurements:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

Financial instruments are measured at either fair value or amortized cost. The carrying values of cash and accounts payables accrued liabilities at amortized cost approximate their fair values due to their short term nature.

The fair value of marketable securities through other comprehensive income is based on closing market price of common shares as of the measurement date.

The carrying values of convertible debentures and loans and borrowings are discounted at the effective interest rate which approximate fair value. The fair value of convertible debentures includes the debt and equity components. During the period, there were no transfers of amounts between level 1, 2 and 3 of the fair value hierarchy.

11. Financial instruments risk

(a) 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.

(b) Credit risk

Credit risk is the risk of a potential loss to the Company associated with a counterparty's inability to fulfill its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and sundry receivable. The risk for cash and cash equivalents balances are mitigated by holding these instruments with highly rated and reputable Canadian financial institutions. Management believes that the credit risk concentration with respect to financial instruments included in sundry receivable is remote

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities as they come due. The Company's approach to managing liquidity risk is to ensure that it has sufficient liquidity to settle obligations and liabilities when they are due. As at December 31, 2020, the Company had a working capital deficiency of $791,181 (September 30, 2020 - $736,046). The Company is currently actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures. There is no assurance that the Company will be successful in these initiatives. As of the date hereof, the Company has no commitments for capital expenditures. Accounts payable and accrued liabilities are due within 90 days and loans and borrowings mature within 1 to 3 years.

Subsequent to December 31, 2020, the Company closed debt and equity financings for gross proceeds of $4,033,792. This capital raise provides the Company with sufficient cash to support its ongoing operations, growth initiatives and contractual obligations.

(d) Market risk

Market risk is the risk that changes in the market related factors, such as interest rates and market prices, which will affect the Company's (loss) income or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

(i) 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 December 31, 2020, the Company did not have any financial instruments subject to significant interest rate risk.

11. Financial Instruments Risk (continued)

(ii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company's marketable securities and investments are susceptible to price risk arising from uncertainties about their future outlook, future values and the impact of market conditions. The fair value of marketable securities held in publicly traded entities are based on quoted market prices which the shares of the investments can be exchanged for. As at December 31, 2020, the Company did not have any financial instruments subject to significant price risk.

12. 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. The Company is not subject to externally imposed capital requirements. There has been no change to the Company's approach to capital management during the period ended December 31, 2020.

13. Subsequent events

The following events occurred subsequent to December 31, 2020:

(a) On January 18, 2021, the Company closed a non-brokered private placement of a one year secured convertible debentures ("Debentures") in the principal amount of $1,199,600. The Debentures bear interest at 5% per annum, payable on maturity.

The principal amount, together with all accrued and unpaid interest, is convertible into units of the Company, at the option of the holder, at a price of $0.06 per unit, where each unit is comprised of one common share of the Company and one transferable share purchase warrant. Each warrant is exercisable into one additional common share at a price of $0.07 per share for a period of two years from the date of conversion.

On February 19, 2021, 1,660,000 common shares and 1,660,000 warrants were issued on partial conversion of the Debentures.

13. Subsequent events (continued)

(b) In February 2021, the Company closed a non-brokered private placement of an aggregate of 9,447,307 units at a price of $0.30 per unit for gross proceeds of $2,834,192. Each unit consisted of one common share and one-half of one transferable common share purchase warrant of the Company. Each whole warrant is exercisable into one common share at a price of $0.75 per share for a period of one year from the date of issuance.

The Company paid finders' fees of $35,847 and issued 47,796 non-transferrable warrants exercisable on the same terms as the private placement.

(c) On February 15, 2021, the Company entered into a Letter of Intent ("LOI") to acquire certain intellectual property assets from Victory Square Technologies Inc. for a total consideration of $6,000,000 payable in 4,411,765 common shares of the Company at a deemed price of $1.36 per share. Closing of the acquisition is subject to a number of conditions, including execution of a definitive agreement and Exchange approval, and there is no guarantee that it will be completed as contemplated or at all.

The Company announced that it will carry-out a non-brokered private placement to raise up to $5,000,000, subject to a 100% over-allotment option, consisting of up to 3,676,500 units of the Company, excluding any over-allotment option, at a price of $1.36 per unit. Each Unit will comprise of one common share of the Company and one-half of one transferrable share purchase warrant. Each whole warrant will entitle the holder to acquire one share at $1.75 per share for a period of twelve months. There is no guarantee that this financing will close, as proposed or at all.

(d) The Company granted 200,000 stock options to a director and an officer of the Company at an exercise price of $1.08 per share expiring February 8, 2026.

(e) 570,000 common shares were issued at $0.145 per share for gross proceeds of $82,650 on the exercise of stock options.

(f) An aggregate of 135,000 common shares were issued at an average price of $0.23 per share for gross proceeds of $30,375 on the exercise of warrants.