



CLOUD NINE WEB3 TECHNOLOGIES INC.
(Formerly Cloud Nine Education Group Ltd.)

Consolidated Financial Statements

For the years ended September 30, 2021 and 2020
(In Canadian dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CLOUD NINE WEB3 TECHNOLOGIES INC. (FORMERLY CLOUD NINE EDUCATION GROUP LTD.)

Opinion

We have audited the consolidated financial statements of Cloud Nine Web3 Technologies Inc. (formerly Cloud Nine Education Group Ltd.) (the "Company"), which comprise:

- ♦ the consolidated statements of financial position as at September 30, 2021 and 2020;
- ♦ the consolidated statements of comprehensive loss for the years then ended;
- ♦ the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended;
- ♦ the consolidated statements of cash flows for the years then ended; and
- ♦ the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$3,980,572 during the year ended September 30, 2021 and, as of that date, the Company has a deficit of \$9,041,518. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Restated Comparative Information

We draw attention to Note 3 to the consolidated financial statements, which explains that certain comparative information presented for the year ended September 30, 2020 has been restated. Our opinion is not modified in respect of this matter.

Vancouver

1700 - 475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

Langley

600 - 19933 88 Ave
Langley, BC V2Y 4K5
T: 604 282 3600
F: 604 357 1376

Nanaimo

201 - 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Kevin Kwan.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia

January 28, 2022

Vancouver

1700 - 475 Howe St
Vancouver, BC V6C 2B3
T: 604 687 1231
F: 604 688 4675

Langley

600 - 19933 88 Ave
Langley, BC V2Y 4K5
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Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Consolidated Statements of Financial Position

As at September 30, 2021 and 2020

(Expressed in Canadian dollars)

	Note	2021	Restated - Note (3) 2020
		\$	\$
Assets	9		
Current			
Cash and cash equivalents	18	2,508,857	2,537
GST recoverable		7,380	-
Prepays and other assets	4	385,000	1
		2,901,237	2,538
Intangible assets	5	5,294,623	55,606
Investment	6	145,182	-
Derivative	6	104,818	-
Capital assets		3,427	-
		8,449,287	58,144
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7, 10	376,999	372,550
Income taxes payable		-	18,140
Loans and borrowings	8, 10	100,000	129,500
Convertible debentures	9	229,072	274,000
		706,071	794,190
Loans and borrowings	8	51,800	23,242
Long term payable	7	-	174,265
		757,871	991,697
Shareholders' equity (deficiency)			
Share capital	11	16,425,140	3,810,207
Reserves	11	307,794	338,263
Deficit		(9,041,518)	(5,082,023)
		7,691,416	(933,553)
		8,449,287	58,144
Nature of operations and going concern	1		
Subsequent events	6, 9, 21		

Approved on behalf of the Board of Directors:

(Signed) "Allan Larmour"

Director

(Signed) "Kant Trivedi"

Director

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Consolidated Statements of Comprehensive Loss
For the years ended September 30, 2021 and 2020
(Expressed in Canadian dollars)

	Note	2021	Restated - Note (3) 2020
		\$	\$
Revenue			
Curriculum sales		-	9,870
		-	9,870
Expenses			
Advertising and promotion		747,660	-
Amortization and depreciation	5	68,310	65,593
Consulting fees	10	641,975	218,000
Investor and public relations		516,105	12,109
Marketing		1,342,526	-
Office and administration	10	136,584	1,535
Professional fees	10	243,731	50,567
Regulatory and transfer agent fees		103,536	17,912
Salaries and benefits	10	198,877	85,277
Share-based compensation	10, 13	136,474	47,400
		4,135,778	498,393
Loss before other items		(4,135,778)	(488,523)
Other items			
Finance costs	17	(112,640)	(38,964)
Foreign exchange gain		10,852	-
Government grant	8	4,249	17,884
Loss on modification of convertible debentures	9	-	(224,000)
Gain on settlement and write off of payables	7	252,745	-
		(155,206)	(245,080)
Net loss and comprehensive loss for the year		(3,980,572)	(733,603)
Basic and diluted loss per share		(0.11)	(0.04)
Weighted average number of shares outstanding		37,715,705	16,850,356

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

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

	Note	Share capital		Reserves			Subscriptions Received	Deficit	Total
		Number	Amount	Stock Options and warrants	Convertible debentures	Total reserves			
		#	\$	\$	\$	\$			
Balance, September 30, 2019 <i>Restated - Note (3)</i>		16,787,047	3,793,265	73,655	-	73,655	27,000	(4,348,420)	(454,500)
Exercise of options	11, 13	70,000	16,942	(6,792)	-	(6,792)	-	-	10,150
Share-based compensation	13	-	-	47,400	-	47,400	-	-	47,400
Equity component of convertible debentures		-	-	-	224,000	224,000	-	-	224,000
Adjustment to previously received subscriptions		-	-	-	-	-	(27,000)	-	(27,000)
Net loss for the year		-	-	-	-	-	-	(733,603)	(733,603)
Balance, September 30, 2020 <i>Restated - Note (3)</i>		16,857,047	3,810,207	114,263	224,000	338,263	-	(5,082,023)	(933,553)
Shares issued for equity financings	11	10,563,462	4,263,716	99,358	-	99,358	-	-	4,363,074
Share issue costs	11	-	(203,903)	23,054	-	23,054	-	-	(180,849)
Shares issued for asset acquisition	5,11	4,411,765	4,700,000	-	-	-	-	-	4,700,000
Conversion of debentures	11	19,212,833	1,541,406	-	(334,688)	(334,688)	-	-	1,206,718
Equity component of convertible debentures	9	-	-	-	141,751	141,751	-	-	141,751
Exercise of options	11,13	910,000	229,591	(75,341)	-	(75,341)	-	-	154,250
Forfeited options		-	-	(21,077)	-	(21,077)	-	21,077	-
Exercise of warrants	11,12	10,640,546	2,084,123	-	-	-	-	-	2,084,123
Share-based compensation	13	-	-	136,474	-	136,474	-	-	136,474
Net loss for the year		-	-	-	-	-	-	(3,980,572)	(3,980,572)
Balance, September 30, 2021		62,595,653	16,425,140	276,731	31,063	307,794	-	(9,041,518)	7,691,416

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

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Consolidated Statements of Cash Flows

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

	2021	Restated - Note (3) 2020
	\$	\$
Operating activities		
Net loss for the year	(3,980,572)	(733,603)
Items not affecting cash		
Amortization and depreciation	68,310	65,593
Share-based compensation	136,474	47,400
Accrued interest and accretion expense	101,712	37,135
Government grant	(4,249)	(17,884)
Foreign exchange gain	(10,852)	-
Loss on modification of convertible debentures	-	224,000
Gain on settlement of payables	(252,745)	-
Changes in non-cash working capital items:		
GST recoverable	(7,380)	-
Prepays and other assets	(384,999)	-
Accounts payable and accrued liabilities	123,008	98,790
Income taxes payable	(18,140)	-
	(4,229,433)	(278,569)
Investing activities		
Intangible assets development costs	(306,500)	-
Acquisition of intangible assets	(300,000)	-
Purchase of capital assets	(4,254)	-
Investment and derivative	(250,000)	-
	(860,754)	-
Financing activities		
Shares issued for cash, net of share issue costs	6,420,598	10,150
Proceeds from loans and borrowings	20,000	43,500
Repayment of loans and borrowings	(29,500)	-
Proceeds from convertible debentures	1,185,409	-
	7,596,507	53,650
Increase (decrease) in cash and cash equivalents	2,506,320	(224,919)
Cash and cash equivalents, beginning of year	2,537	227,456
Cash and cash equivalents, end of year	2,508,857	2,537
Supplemental cash flow information (Note 18)		

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

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Notes to Consolidated Financial Statements

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

1. Nature of operations and going concern

(a) Nature of operations

Cloud Nine Web3 Technologies Inc. (formerly 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 February 26, 2021, the Company changed its name to Cloud Nine Web3 Technologies Inc.

The Company is a development stage technology issuer focused on developing and offering peer-to-peer or decentralized infrastructure products and related content including its proprietary Limitless VPN (virtual private network).

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 900 – 885 West Georgia Street, Vancouver, BC, V6C 3H1 and its head office is located at 610 - 700 West Pender Street, Vancouver, BC, 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. During the year ended September 30, 2021, the Company incurred a net loss of \$3,980,572 (2020 - \$733,603) and as of September 30, 2021, had an accumulated deficit of \$9,041,518 (2020 - \$5,082,023). 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.

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from the novel coronavirus (COVID-19). The Company continues to operate its business and the impact of COVID-19 on its business operations cannot be reasonably estimated at this time.

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Notes to Consolidated Financial Statements

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

2. Significant accounting policies

(a) Basis of presentation

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 and its subsidiaries is Canadian dollars.

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on January 28, 2022.

(b) Basis of consolidation

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

<u>Subsidiaries</u>	<u>Ownership</u>	<u>Jurisdiction</u>
BHR Capital Corp. (“BHR”)	100%	Canada
English Canada World Organization Inc. (“EC”)	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) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, and money market instruments, with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. Transaction costs are expensed when incurred. Cash and cash equivalents are designated as financial assets at amortized cost.

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Notes to Consolidated Financial Statements

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(d) Business combinations and asset acquisitions

Acquisition of businesses are accounted for using the acquisition method. The cost of a business combination is measured as the sum of the acquisition date fair values of the assets transferred, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair values. Acquisition related costs are expensed as incurred.

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. The cost of an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisition do not give rise to goodwill.

(e) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives which do not exceed the contractual period, if any, as follows:

IP assets	10 years
Digital curriculum	2 – 5 years

Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Any gain or loss arising from the derecognition is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

(f) Impairment of intangible assets

Intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances that make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of the assets. Finite life intangible assets are tested whenever there is an indication of impairment.

An impairment loss is recognized if the carrying amount of intangible assets exceeds its recoverable amount. The recoverable amounts of the intangible assets are determined based on the higher of the fair value less costs of disposal or value in use. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the intangible assets given the necessity of making key economic assumptions about the future. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Notes to Consolidated Financial Statements

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(f) Impairment of intangible assets (continued)

Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an asset impairment loss is allocated to the intangible assets on a pro rata basis. In allocating a reversal of an impairment loss, the carrying amount of an asset shall not be increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior period.

(g) Share capital

Cash consideration received from the issuance of units, consisting of common shares and share purchase warrants, are first allocated to common shares based on the quoted market value of the common shares at the time the units are priced, and the balance, if any, is allocated to the attached warrants under the residual method. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from share capital. Proceeds received for shares that have not yet been issued as at the reporting date are recorded as share subscriptions.

Shares issued for non-monetary consideration are recorded at fair value of the goods or services received. When such fair value cannot be estimated reliably, fair value is measured based on the quoted market value of the Company's shares on the date of share issuance. Warrants issued as purchase consideration in non-monetary transactions are recorded at fair value using the Black-Scholes option pricing model.

(h) Share-based compensation

Stock Options

Stock options issued to employees are measured at fair value at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to share reserves.

Stock options issued to non-employees are measured at the fair value of goods or services received or the fair value of equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured. The fair value of non-employee stock options is recorded as an expense at the date the goods or services are received with a corresponding credit to share reserves.

The fair value of options is calculated using the Black-Scholes option pricing model. When determining the fair value of stock options, management is required to make certain assumptions and estimates related to expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date.

The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Upon the exercise of stock options, proceeds received from stock option holders are recorded as an increase to share capital and the related share reserve is transferred to share capital.

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Notes to Consolidated Financial Statements

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(h) Share-based compensation (continued)

Restricted Share Units ("RSUs") and Deferred Share Units ("DSUs")

RSUs are equity-settled share-based payments. RSUs are measured at their intrinsic fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant, and is recognized as share-based compensation expense over the vesting period with a corresponding credit to share reserves.

Under IFRS, the Company's DSUs are classified as equity-settled share-based payment transactions as they are settled in either cash or common shares at the sole discretion of the Company. As such, the DSUs are measured in the same manner as RSUs.

The amount recognized for services received as consideration for the RSUs and DSUs granted is based on the number of equity instruments that eventually vest. Upon the release of RSUs and DSUs, the related share reserve is transferred to share capital.

(i) Loss per share

The Company calculates basic earnings or loss per share by dividing net income or loss by the weighted average number of common shares outstanding during the reporting period. The Company follows the treasury stock method for the calculation of diluted earnings per share. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments. When a loss has been incurred, basic and diluted loss per share is the same because the exercise of options and warrants would be anti-dilutive.

Diluted earnings per share is computed in a manner similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from restricted and deferred stock units and the assumed exercise of stock options and warrants, if dilutive.

(j) Financial instruments

Recognition and classification

The Company recognizes a financial asset or financial liability on the consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive (loss) income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of financial assets is generally based on the business model in which the financial assets are managed and their contractual cash flow characteristics.

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Notes to Consolidated Financial Statements

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(j) Financial instruments (continued)

Recognition and classification (continued)

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Measurement

Initial measurement

On initial recognition, all financial assets and financial liabilities are measured at fair value adjusted for directly attributable transaction costs except for financial assets and liabilities classified as FVTPL, in which case the transaction costs are expensed as incurred.

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial instruments:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses including any interest or dividend income, are recognized in profit or loss. Transaction costs are expensed as incurred.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Cloud Nine Web3 Technologies Inc.

(Formerly Cloud Nine Education Group Ltd.)

Notes to Consolidated Financial Statements

For the years ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(j) Financial instruments (continued)

The following accounting policies apply to the subsequent measurement of financial instruments:

Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest rate method; foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Financial liabilities at amortized cost	These are subsequently measured at amortized cost using the effective interest method. Other financial liabilities are derecognized, when the obligations are discharged, cancelled or expired.

Impairment of financial instruments

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For financial assets measured at amortized cost, and debt investments at FVOCI, the Company applies the expected credit loss model. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Convertible debentures

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds as a reduction to the carrying amount of the liability and equity component.

The liability component of the convertible notes was valued using Company specific interest rates assuming no conversion features existed. The resulting debt component is accreted to its fair value over the term to maturity as a non-cash interest charge and the equity component is presented in convertible notes reserve as a separate component of shareholders' equity.

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2. Significant accounting policies (continued)

(k) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(l) Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to exercise judgment and to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Estimates and associated assumptions are based on historical experience and other factors. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated for reasonableness and relevancy. Where revisions to accounting estimates are required, they are recognized in the period in which the estimates are revised for the current as well as future periods that are affected.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below:

Going concern

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties exist related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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2. Significant accounting policies (continued)

(l) Significant accounting judgments, estimates and assumptions (continued)

Intangible assets acquired through acquisition

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. The assessment required management to assess the inputs, processes and outputs of the company acquired at the time of acquisition. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made on and after acquisition.

In determining the fair value of all identifiable assets and liabilities acquired, the most significant estimates relate to intangible assets. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The Company estimated the value of its intangible assets based on the fair value of the equity instruments granted.

Estimated useful life of intangible assets

The useful life of intangible assets relates to the future performance of the assets and management's judgment of the period over which economic benefit will be derived from the assets. The useful life is determined by management and is regularly reviewed for appropriateness. The amortization of Company's finite-life intangible assets begins when the assets are available for use. The useful life is based on historical experience with similar development costs as well as anticipation of future events which may impact their life such as changes in technology.

Impairment of intangible assets

Judgment is required in determining whether intangible assets have indicators of impairment. Determining the amount of impairment of intangibles assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

Fair value of investments and derivatives

The Company reviews its investments and records their fair value at each financial statement reporting date. For investments in public companies, fair value is determined based on the quoted market price. For investments in private companies, certain subjective measures, including recent share transactions, prices for comparable entities, review of cash flow projections and the investee's prospects, financial ratios and discounted cash flows are techniques used to determine fair value. Where possible, the Company uses inputs obtained from observable market data for its valuation models. However, if observable market data is not available, the Company uses judgment to determine fair value.

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2. Significant accounting policies (continued)

(l) Significant accounting judgments, estimates and assumptions (continued)

Fair value of investments and derivatives (continued)

The individual fair values attributed to the different components of a financing transaction such as investments in equity securities and derivative financial instruments, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; and (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Convertible debentures

The identification of convertible debenture components, financial liability and equity, is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Share-based compensation

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of the Company's share price, expected life of options, rate of forfeiture of awards granted, changes in subjective input assumptions can materially affect the fair value estimate.

Deferred tax assets

Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. The Company has recorded a full valuation allowance against its deferred tax assets due to the uncertainty in the realization of these assets.

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2. Significant accounting policies (continued)

(m) 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, 2023. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

3. Restatement of previously reported consolidated financial statements

The Company's consolidated financial statements as at and for the years ended September 30, 2020 and 2019, have been restated in connection with a change in accounting policy and correction of errors as follows:

- (a) Effective October 1, 2020, the Company elected to change its accounting policy for share-based compensation in accordance with IFRS 2 Share-based payment where it has elected to recognize a transfer within equity for expired vested equity instruments. Previously, the value of all expired vested options and warrants remained in reserves. Management determined that the reclassification of expired equity instruments within equity would provide a more relevant information as it better reflects the fair value of awards that are expected to vest. As a result, the opening 2019 shareholders' equity was restated to reclassify expired options and warrants of \$395,596 from reserves to deficit.
- (b) In the 2015 annual consolidated financial statements, the fair value of \$1,342,249 for 27,209,210 common shares issued as consideration in a reverse takeover transaction (the "RTO") was erroneously accounted for in reserves at the date of transaction. The Company restated the opening 2019 shareholders' equity to properly reflect the exchange of common shares in the RTO in share capital.
- (c) In the 2020 annual consolidated financial statements, the Company did not account for the modification of the 2017 Debentures under IAS 32 Financial Instruments: Presentation related to the reduction of the conversion price of the 2017 Debentures from \$0.70 per share to \$0.10 per share (Note 9(a)). The Company restated the 2020 annual consolidated financial statements to reflect the modification and recognized a loss on modification of convertible debentures of \$224,000.

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3. Restatement of previously reported consolidated financial statements (continued)

The following table summarizes the effects of adjustments described above:

	September 30, 2019 (as previously reported)	Adjustment	September 30, 2019 (as restated)
	\$	\$	\$
Amended and restated consolidated statement of financial position			
Share capital	2,451,016	1,342,249	3,793,265
Total reserves	1,811,500	(1,737,845)	73,655
Deficit	(4,744,016)	395,596	(4,348,420)

For the September 30, 2019 consolidated financial statements, the restatement did not have any impact on the consolidated statement of loss and comprehensive loss, basic and diluted loss per share calculation, and the consolidated statement of cash flows.

	September 30, 2020 (as previously reported)	Adjustment	September 30, 2020 (as restated)
	\$	\$	\$
Amended and restated consolidated statement of financial position			
Share capital	2,467,958	1,342,249	3,810,207
Total reserves	1,852,108	(1,513,845)	338,263
Deficit	(5,253,619)	171,596	(5,082,023)
Amended and restated consolidated statement of loss and comprehensive loss			
Loss on modification of convertible debentures	-	(224,000)	(224,000)
Net loss and comprehensive loss for the year	(509,603)	(224,000)	(733,603)
Basic and diluted loss per share	(0.03)	(0.01)	(0.04)
Amended and restated consolidated statement of cash flows			
Net loss for the year	(509,603)	(224,000)	(733,603)
Loss on modification of convertible debentures	-	224,000	224,000

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4. Prepaids and other assets

	2021	2020
	\$	\$
Prepaid expenses	76,000	-
Other assets (a)	309,000	1
	385,000	1

(a) As at September 30, 2021, included in other assets was an advance to a third party of \$300,000 which was unsecured, non-interest bearing and without fixed terms of repayment. On November 22, 2021, the advance receivable was converted into a promissory note (the "Note"). The Note is unsecured, bears interest at 15% per annum, compounded monthly, and payable at maturity. The Note is repayable monthly and matures on March 15, 2022. An additional interest of 7% per annum shall be charged on overdue amounts.

5. Intangible assets

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

	IP Asset (a)	Digital Curriculum	Total
	\$	\$	\$
Cost			
Balance, September 30, 2020 and 2019	-	327,972	327,972
Additions	5,231,500	75,000	5,306,500
Balance, September 30, 2021	5,231,500	402,972	5,634,472
Accumulated amortization			
Balance, September 30, 2019	-	206,773	206,773
Amortization	-	65,593	65,593
Balance, September 30, 2020	-	272,366	272,366
Amortization	-	67,483	67,483
Balance, September 30, 2021	-	339,849	339,849
Net book value			
September 30, 2020	-	55,606	55,606
September 30, 2021	5,231,500	63,123	5,294,623

(a) The Company acquired certain intellectual property assets from an arm's length party, Victory Square Technologies Inc. ("Victory Square"), related to a development stage VPN platform, decentralized storage technologies and other related assets ("IP Assets") pursuant to an asset purchase agreement dated March 15, 2021 (the "Acquisition"). Total consideration for the Acquisition was \$5,000,000 which consisted of 4,411,765 common shares at a fair value of \$4,700,000 and a finder's fee of \$300,000. Note 11(b)(iii).

Cloud Nine is developing the IP assets and spent an additional \$231,500 during the year ended September 30, 2021.

As at September 30, 2021, the assets were not available for use and no provision for amortization was recorded.

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6. Investment and derivative

The Company entered into a share purchase agreement dated June 28, 2021 (the “SPA”), with Next Decentrum Technologies Inc. (“Next Decentrum”), a private technology corporation focused on education tech platforms and emerging technologies. Under the SPA, the Company will acquire a 16% ownership interest in Next Decentrum, on an undiluted basis, by purchasing an aggregate of 2,673,792 units of Next Decentrum at price of \$0.187 per unit, in eight equal tranches over a period of six months, for a total investment of \$500,000.

Each unit is comprised of one common share and one share purchase warrant exercisable at \$0.2805 per share for a period of 24 months from the date of issuance. The Company has the right to increase its ownership in Next Decentrum to up to 27.6% by providing an additional investment of up to \$750,000 in connection with the exercise of all 2,673,792 warrants.

During the year ended September 30, 2021, the Company purchased an aggregate of 1,336,895 units of Next Decentrum for \$250,000 representing an 8.9% ownership interest in Next Decentrum. Subsequent to September 30, 2021, the Company completed its investment and holds a 16% ownership interest in Next Decentrum by purchasing an additional 1,336,895 units for \$250,000.

For the year ended September 30, 2021, the Company applied the relative fair value method using an implied share price in allocating the value of the units to the underlying common share and warrant components, both of which are level 3 inputs. The fair value of the 1,336,895 shares of \$145,182 was based on an implied share price of \$0.11 per share and the fair value of the 1,336,895 warrants of \$104,818 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free rate of 0.52%; dividend yield of 0%; stock price volatility of 189%; and an expected life of 2 years.

7. Accounts payable and accrued liabilities

	2021	2020
	\$	\$
Accounts payable	243,906	182,885
Accrued liabilities (Note 10(c))	133,093	189,665
Other payable (a)	-	174,265
	376,999	546,815
Current	376,999	372,550
Non-current (a)	-	174,265

- (a) During the year ended September 30, 2021, the Company determined that certain payables had exceeded the statute of barred limitations for collections and, as a result, the Company wrote off the \$174,265 of other payable and this amount is included in gain on settlement and write off of payables.

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8. Loans and borrowings

	2021	2020
	\$	\$
Loan from a related party (Note 10(c))	100,000	126,000
CEBA loans (a)	51,800	23,242
Other loans	-	3,500
	151,800	152,742
Current	100,000	129,500
Non-current	51,800	23,242

- (a) 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 a rate of 5% per annum. On January 12, 2022, the Government of Canada extended the maturity date from December 31, 2022 to December 31, 2023.

The benefit of the government loan received at below market rate of interest is treated as government grant. As at September 30, 2021, the loan of \$51,800 (2020 - \$23,242) was recognized and measured at fair value using the Company’s incremental borrowing rate of 12% per annum.

During the year ended September 30, 2021, the Company recorded the value of the grant of \$4,249 (2020 - \$17,884), which was the difference between the carrying amount of the loan and proceeds received. During the year ended September 30, 2021, the Company recorded accretion expense of \$5,435 (2020 - \$1,126) on the loan.

9. Convertible debentures

	July 2017 (a)	January 2021 (b)	Total
	\$	\$	\$
Balance, September 30, 2020	274,000	-	274,000
Issued	-	1,199,600	1,199,600
Equity portion	-	(141,751)	(141,751)
Transaction costs	-	(12,514)	(12,514)
Interest accrued	47,950	-	47,950
Conversion	(321,950)	(884,768)	(1,206,718)
Accretion	-	68,505	68,505
Balance, September 30, 2021	-	229,072	229,072

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9. Convertible debentures (continued)

- (a) 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 were convertible into common shares of the Company at a price of \$0.70 per share and matured on February 28, 2019. On June 30, 2020, as approved by the Exchange, the conversion price was amended from \$0.70 per share to \$0.10 per share. (Note 3(c)).

On February 17, 2021, the debenture holders entered into an assignment agreement with respect to the 2017 Debentures and on February 19, 2021, the 2017 Debentures and accrued interests of \$47,950 were converted into 3,219,500 common shares of the Company. (Note 11(b)(ii)).

- (b) On January 18, 2021, the Company completed a non-brokered private placement of a one year convertible debentures (the "Debentures") in the principal amount of \$1,199,600. The Debentures bear interest at 5% per annum, payable on maturity, and are secured by a general security agreement covering all the assets of the Company.

The Debentures are convertible into units of the Company at a price of \$0.06 per unit, where each unit is comprised of one common share and one 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.

The Debentures are compound financial instruments which were classified separately as financial liability and equity. At initial recognition, the fair value of the liability component was estimated at \$1,045,335, using a discounted cash flow model method with an expected life of 1 year and a discount rate of 19.24%. The conversion feature is classified as equity and was estimated based on the residual value of \$141,751. This amount is not subsequently remeasured and will remain in equity until the debentures are converted, in which case, the balance recognized in equity will be transferred to share capital. Transaction costs of \$12,514 related to the issuance of the convertible debentures were allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

During the year ended September 30, 2021, 15,993,333 common shares and 15,993,333 warrants were issued on partial conversion of \$959,600 Debentures. (Note 11(b)(vii)).

As at September 30, 2021, included in accounts payable and accrued liabilities were accrued interests on the debentures of \$27,771. (Note 7).

Subsequent to September 30, 2021, the Company issued 4,000,000 common shares and 4,000,000 warrants on the conversion of all of the remaining \$240,000 principal amount of Debentures.

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10. Related party transactions

Key management compensation for the years ended September 30, 2021 and 2020 consisted of:

(a) Compensation of key management personnel

	2021	2020
	\$	\$
CEO Salary	-	60,000
CFO Salary	129,038	-
Share-based compensation ⁽¹⁾	98,609	15,800

⁽¹⁾ Share-based compensation represents the fair value of options granted and vested to directors and officers of the Company.

(b) Related party transactions

	2021	2020
	\$	\$
Office and administration, salary and benefits ⁽¹⁾	54,525	-
Consulting fees ⁽²⁾	50,280	-
Professional fees ⁽³⁾	22,500	29,663

⁽¹⁾ Shared rent, salary and office expenses paid to a company with common directors and officers.

⁽²⁾ Consulting fees paid to a director of the Company.

⁽³⁾ Professional fees paid to a company controlled by a director and former CFO of the Company.

(c) Related party balances

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

	2021	2020
	\$	\$
(i) Loan from a former director ⁽¹⁾	100,000	100,000
(i) Loan from a director	-	41,771
(ii) Due to a related party	-	2,625
(ii) Due to a director and officer ⁽²⁾	50,000	50,000

⁽¹⁾ Pursuant to a promissory note dated September 30, 2014, the loan is unsecured, non-interest bearing and due on September 30, 2015. The loan was extended to December 1, 2016, for a one-time interest charge of \$20,000.

⁽²⁾ Amount due is unsecured, non-interest-bearing and without fixed terms of repayment. (Note 7)

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11. Share capital

(a) Authorized

The authorized share capital of the Company is an unlimited number of common shares without par value.

(b) Issued and outstanding

As at September 30, 2021, the Company's issued and outstanding share capital consisted of 62,595,653 (2020 – 16,857,047) issued and fully paid common shares. The following shares were issued during the year ended September 30, 2021:

- (i) In February 2021, the Company completed 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 (the "Offering"). 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. Total share issue costs with respect of the Offering were \$186,401 which consisted of finder's fees of \$32,347, 47,796 finder's warrants at a fair value of \$23,054 and consulting and advisory fees of \$131,000. The fair value of the 47,796 finder's warrants was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate of 0.15%; dividend yield of 0%; stock price volatility of 196%; and an expected life of 1 year.
- (ii) On February 19, 2021, 3,219,500 common shares were issued on conversion of the 2017 Debentures for \$321,950 (Note 9(a)). \$224,000 was reclassified from reserves to the share capital on the conversion of the Debentures.
- (iii) On March 16, 2021, 4,411,765 common shares were issued at a fair value of \$4,700,000 pursuant to the acquisition of assets. (Note 5.)
- (iv) In May 2021, the Company completed a non-brokered private placement of 1,116,155 units at \$1.37 per unit for gross proceeds of \$1,528,882. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$1.75 per share for a period of one year from the date of issuance subject to accelerated expiry if the shares trade at \$2.50 for ten consecutive days. The Company paid a finder's fee of \$17,502 related to the private placement.
- (v) An aggregate of 910,000 common shares were issued for gross proceeds of \$154,250 pursuant to stock options exercises. The fair value of the options of \$75,341 was reclassified from reserves to share capital on the exercise of these options.
- (vi) An aggregate of 10,640,546 common shares were issued for gross proceeds of \$2,084,123 pursuant to warrant exercises.
- (vii) An aggregate of 15,993,333 common shares and 15,993,333 warrants were issued on conversion of \$959,600 Debentures. \$110,688 was reclassified from reserves to the share capital on the conversion of the Debentures. (Note 9(b)).

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11. Share capital (continued)

(b) Issued and outstanding (continued)

The following shares were issued during the year ended September 30, 2020:

On November 5, 2019, 70,000 common shares were issued for gross proceeds of \$10,150 pursuant to options exercises. The fair value of the options of \$6,792 was reclassified from reserves to share capital on the exercise of these options.

12. 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 and 2019	8,640,546	0.23
Issued	21,322,861	0.25
Exercised ⁽¹⁾	(10,640,546)	0.20
Balance, September 30, 2021	19,322,861	0.29

⁽¹⁾ The weighted average share price on the date of exercise for warrants was \$1.67.

As at September 30, 2021, the weighted average contractual life of the share purchase warrants was 1.40 years and the weighted average exercise price was \$0.29 per warrant.

The following table summarizes the warrants outstanding as at September 30, 2021:

Exercise Price	Expiry date	Warrants
\$		#
0.75	February 2, 2022	3,158,441
0.75	February 5, 2022	1,613,009
1.75	May 12, 2022	558,078
0.07	February 18, 2023	660,000
0.07	March 17, 2023	1,600,000
0.07	May 6, 2023	475,000
0.07	June 24, 2023	1,000,000
0.07	August 18, 2023	8,333,333
0.07	August 23, 2023	1,925,000
		19,322,861

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13. Stock options

In 2021, the Company adopted an Omnibus Equity Incentive Plan ("2021 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, equity-based incentive awards in the form of stock options ("Options"), restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"). The 2021 Plan is a rolling plan which provides that the aggregate maximum number of common shares that may be issued upon the exercise or settlement of awards granted under the 2021 Plan shall not exceed 10% of the Company's issued and outstanding common shares from time to time.

A summary of the status of the options outstanding follows:

	Stock options	Weighted average exercise price
	#	\$
Balance, September 30, 2019	1,114,000	0.318
Granted	720,000	0.12
Exercised	(70,000)	0.145
Expired	(4,000)	0.50
Forfeited	(210,000)	0.61
Balance, September 30, 2020	1,550,000	0.19
Adjustment	50,000	0.70
Granted	340,000	1.36
Exercised ⁽¹⁾	(910,000)	0.17
Forfeited	(420,000)	0.51
Balance, September 30, 2021	610,000	0.71

⁽¹⁾ The weighted average share price on the date of exercise for options was \$1.36.

The following table summarizes the options outstanding and exercisable as at September 30, 2021:

Exercise Price	Expiry date	Options outstanding	Options exercisable
\$		#	#
0.70	April 4, 2022	50,000	50,000
0.70	July 26, 2022	20,000	20,000
0.30	December 8, 2022	100,000	100,000
0.50	May 23, 2023	30,000	30,000
0.70	May 23, 2023	50,000	50,000
0.12	October 25, 2024	120,000	120,000
1.08	February 8, 2026	200,000	50,000
1.79	May 3, 2026	40,000	5,000
		610,000	425,000

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13. Stock options (continued)

As at September 30, 2021, the weighted average contractual life of the stock options was 2.81 years and the weighted average exercise price was \$0.71.

During the year ended September 30, 2021, the Company recorded share-based compensation of \$136,474 (2020 - \$47,400) for all stock options granted and vested during the period.

The fair value of stock options granted during the year was determined using the Black-Scholes option pricing model based on the following weighted average assumptions at the time of grant:

	2021	2020
Risk-free annual interest rate ⁽¹⁾	0.45%	1.57%
Expected annual dividend yield	-	-
Expected stock price volatility ⁽²⁾	193%	88%
Expected life of options (years) ⁽³⁾	2.71	3
Forfeiture rate ⁽⁴⁾	22%	-

(1) The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

(2) Volatility was estimated by using the average historical volatility of the Company.

(3) The expected life in years represents the period of time that options granted are expected to be outstanding.

(4) The forfeiture rate assumption is based on historical results and management's expectations of future forfeitures.

The weighted average fair value of stock options granted during the year ended September 30, 2021 was \$0.92 (2020 - \$0.07) per option.

14. 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.

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14. Fair value of financial instruments (continued)

Financial instruments are measured at either fair value or amortized cost. The following table sets out the valuation methods used to determine fair value of each financial instrument:

Financial instruments	Fair value method
Measured at fair value	
Investments (FVOCI)	Implied share price as at measurement date (Level 3)
Derivatives (FVTPL)	Black-Scholes option pricing model (Level 3)
Measured at amortized cost	
Cash and cash equivalents	Carrying amount (approximates fair value due to short-term nature)
Advance receivable	Carrying amount (approximates fair value due to short-term nature)
Accounts payable and accrued liabilities	Carrying amount (approximates fair value due to short-term nature)
Convertible debentures and loans and borrowings	Carrying value discounted at the effective interest rate (Level 2)

During the period, there were no transfers of amounts between level 1, 2 and 3 of the fair value hierarchy.

The following table show the carrying amounts and fair values of financial assets and financial liabilities as at September 30, 2021:

	FVTOCI	FVTPL	Amortized cost	Total
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	-	-	2,508,857	2,508,857
Advance receivable	-	-	300,000	300,000
Investment	145,182	-	-	145,182
Derivative	-	104,818	-	104,818
	145,182	104,818	2,808,857	3,058,857
Financial liabilities				
Accounts payable and accrued liabilities	-	-	376,999	376,999
Loans and borrowings	-	-	151,800	151,800
Convertible debentures	-	-	229,072	229,072
	-	-	757,871	757,871

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15. Financial instruments risk

The Company is exposed to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

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.

(a) 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 other assets. The risk for cash and cash equivalent balances are mitigated by holding these instruments with highly rated and reputable Canadian financial institutions. Credit risk associated with other assets is considered moderate.

(b) 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 September 30, 2021, the Company had working capital of \$2,195,166 (2020 – working capital deficiency of \$791,652). The Company is currently 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. The Company's capital expenditures mainly consist of the development of its technology platforms. Accounts payable and accrued liabilities are due within 90 days and loans and borrowings mature within 1 to 3 years.

(c) 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 September 30, 2021, the Company did not have any financial instruments subject to significant interest rate risk.

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15. 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 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 investments and derivatives held in privately held companies is based on certain valuation techniques as outlined in Note 6. As at September 30, 2021, the Company did not have any financial instruments subject to significant price risk.

16. Capital management

The Company defines capital as share capital, reserves, 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 year ended September 30, 2021.

17. Finance costs

	2021	2020
	\$	\$
Accretion expense	73,941	1,126
Interest expense	36,282	36,009
Bank charges	2,417	1,829
	112,640	38,964

18. Supplemental cash flow information

Cash and cash equivalents consist of:

	2021	2020
	\$	\$
Cash	2,008,857	2,537
Guaranteed Investment Certificate (GIC) ⁽¹⁾	500,000	-

⁽¹⁾ GIC is redeemable on demand, bears rate at 0.25% per annum and matures on December 23, 2021.

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18. Supplemental cash flow information (continued)

Supplementary cash flow information:

	2021	2020
	\$	\$
Non-cash operating activities		
Debenture interest settled in shares (Note 9)	47,950	-
Interest paid	17,591	-

19. Income taxes

The Company and its subsidiaries are subject to income taxes in Canada on its taxable income as reported in its statutory accounts at a tax rate in accordance with the relevant income tax laws.

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2021	2020
	\$	\$
Net loss before tax	(3,980,572)	(733,603)
Statutory tax rate	27%	27%
Income tax recovery at statutory rate	(1,074,754)	(98,073)
Increase (reduction) in income taxes:		
Non-deductible items	36,848	13,000
Change in tax assets not recognized	1,037,906	185,073
Total income tax expense	-	-

Deferred income taxes result primarily from differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. The Company has temporary differences between the tax and accounting bases of assets. The temporary differences that give rise to deferred income tax assets (liabilities) at September 30, 2021 and 2020, are as follows:

	2021	2020
	\$	\$
Losses carried forward	1,922,715	818,000
Intangible assets	57,407	39,000
Share issue costs and other	39,063	9,000
Deferred tax asset not recognized	(2,019,185)	(866,000)
Net deferred tax assets (liabilities)	-	-

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19. Income taxes (continued)

As at September 30, 2021, the Company has capital losses carried forward of approximately \$1,117,000 (2020 – \$1,117,000). The Company has non-capital losses carried forward of \$6,003,921 as at September 30, 2021 (2020 - \$1,898,000). The non-capital losses expire from 2035 to 2041.

20. Segment disclosure

The Company has one operating segment, being the development and marketing of its technology platforms, and its operations and long-term assets are located in North America.

21. Subsequent events

The following events occurred subsequent to September 30, 2021:

- (a) The Company cancelled an aggregate of 240,000 stock options held by directors and employees of the Company with a weighted average exercise price of \$1.20 per share expiring in February and May 2026.
- (b) The Company amended the exercise price of 558,078 warrants from \$1.75 to \$0.40 per share.
- (c) The Company extended the expiry date of an aggregate of 4,723,654 warrants from February 2022 to August 31, 2022.