CLOUD NINE EDUCATION GROUP LTD.

Management's Discussion and Analysis
For the Period Ended June 30, 2016
Prepared as of August 29, 2016

Contact Information
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General

The following discussion and analysis, prepared as of August 29, 2016 should be read together with the condensed interim financial statements for the nine months ended June 30, 2016 and related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Description of Business

Cloud Nine Education Group Ltd. (the "Company") was incorporated in the Province of British Columbia on April 14, 2015, under the Business Corporations Act of British Columbia. Effective March 30, 2016, the Company changed its name from Anterior Education Holdings Ltd. to Cloud Nine Education Group Ltd. The Company's principal business focuses on the licensing and sale of its proprietary, digitally based English as a second language (ESL) curriculum called the Cloud Nine ESL Program ("Cloud Nine Program or Cloud Nine curriculum") to technical schools, universities, high schools and ESL providers in Canada and internationally. The company also owns and operates an ESL school located in downtown Vancouver, British Columbia.

Effective June 10, 2015 the Company completed a Plan of Arrangement with BHR Capital Corp. ("BHR") and Cervantes Capital Corp. ("Cervantes"), whereby the Company became a reporting issuer, and BHR, and its wholly-owned subsidiaries, became a wholly-owned subsidiary of the Company. The Company's registered office is at Suite 900, 549 Howe Street, Vancouver, British Columbia, V6C 2C2.

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

BHR Capital Corp. ("BHR")	Wholly-owned subsidiary of the Company
Cloud Nine College Ltd. ("CNC") (formerly Anterior Educational Systems Ltd. ("AES"))	Wholly-owned subsidiary of BHR
English Canada World Organization Inc. ("EC")	Wholly-owned subsidiary of CNC

Canadian ESL Market – Summary Overview

Within Canada, the education market generates than $6.5 Billion per year, employing over 83,000 people. The ESL market in particular is generates $745 Million annually and services approximately 30,000 foreign students each year (Industry Canada 2009) who come to Canada to learn English.

The industry is highly fragmented, however, and competition for foreign students is fierce. As a result, tuition fees are being pushed lower at the cost of corporate profitability. While this may seem an opportune time to consolidate the industry, ESL school acquisition in the 2013 through 2015 period were overvalued in the opinion of C9EG management have resulted in ESL providers expecting unrealistic prices for their schools. Today, organic growth, while slower, is proving to be a much more cost effective method of corporate development which mitigates the risks of acquiring a collection of overpriced business that are struggling to survive.

International ESL Market – Summary Overview

While the Canadian ESL industry is fragmented and struggling to provide corporate profitability, the international ESL market continues to expand. The British Council has projected that by 2020 more than two billion people per year will be studying English worldwide. This international growth trend for ESL internationally is due in large part because the language of both business and science is increasingly conducted in English and there is no indication that this trend will abate or end in the foreseeable future.

In assessing the international ESL market, it is worth noting that for every student who is able to travel abroad to learn English, there are thousands and thousands of others who are required to remain in their home country to study. With the worldwide proliferation of the smart phone, the tablet and the computer, these ESL students are seeking out new ways to gather information and learn about what interests them. Currently, there are a very limited number of choices for the hundreds of millions of ESL students who, in 2016, are seeking a functional, mobile and accessible ESL curriculum in their own country.

At the same time, teachers need, and are seeking out new and more effective methods of compiling and transmitting information to their students, whilst administrators want to ensure budgetary restraint. The management at C9EG is of the opinion that companies with a digital based curriculum that is cost efficient, and comes with teacher training and certification, faces limited competition and have a wide and potentially profitable set of opportunities before them.

Corporate Development Strategy - Defined

The past 12 to 18 month period has demonstrated that the English as a Second Language (ESL) market in Canada is a difficult one in which to benefit shareholders solely through a consolidation of ESL schools across the country. There are many reasons for this including, but not limited to, the finite number of students coming to Canada to learn ESL juxtaposed an overabundance of schools competing for a share tuition revenue; schools outside of Vancouver and Toronto markets that have proven to be extremely difficult to profitably operate within; agents who recruit students for Canadian ESL schools but at a cost of 25-40% of tuition; the rising cost of teachers and the ever increasing expenses associated with promotion and marketing.

The management team at C9EG is of the view that every attempt to consolidate or otherwise benefit from ESL assets in Canada will meet with the same result unless a fundamental element is added or changed that provides an opportunity to differentiate itself from other ESL providers, to add a significant and reoccurring revenue stream outside of simple tuition and, further, an ability to generate revenues outside of simply teaching ESL to students in Canada.

C9EG management notes that while there are hundreds of ESL schools in Canada competing to teach English to domestic and the 30,000 foreign students who come here to study each year, there are very few ESL curriculum developers who endeavour to meet the needs of more than 1 billion students who seek to develop their English language skills in the international ESL market. When one seeks to locate curriculum developers who provide digital based ESL study programs the number is reduced to a select few.

With this understanding in place the Company's management team believes the best Corporate Development Strategy is to differentiate itself and to develop into a profitable operation is to position C9EG as a digital based ESL curriculum developer for schools that ESL in Canada and around the world.

There are several reasons that Company management has arrived at this decision. First, because today's ESL student wants a more dynamic, interactive and up-to-date curriculum than can be provided through traditional text book study programs. Second, because such a curriculum would clearly differentiate Cloud Nine Education Group from other ESL providers. Third because being an ESL curriculum developer would relieve the Company of the ongoing expenses related to recruiting ESL students; as well as the costs associated with the instructors required to deliver the programs. Fourth, and most importantly, because such a curriculum would enable the Company to generate a very strong, recurring revenue stream with a high margin of profitability. Once the base curriculum is developed, it requires limited personnel to keep the curriculum going the Company continues to add additional ESL schools, universities and technical institutes to their client base.

Corporate Objectives for 2016

After analysing the ESL industry in Canada and abroad over the past 18 month period, and after comparing that assessment with the Company’s internal skill set, financial resources and areas of competitive advantage, the management at C9EG has selected key objectives that the Company will focus on in 2016 in order to meet its corporate development strategy.

The first objective is to securing a listing on the Canadian Stock Exchange. Achieving this goal will provide liquidity for Company shareholders, and position C9EG so that it has greater access to capital in the event that the management team decide to execute a strategy which requires financing beyond what is currently available within the existing pool of working capital.

The second has been for the Company to rebrand itself under the name Cloud Nine. The reasons for the name change are to distance and distinguish C9EG and its Vancouver school from an ESL school in Halifax called ILI, and to create consistency of naming within the corporate structure so as to make it easier for people to identify the relationship between the parent company (C9EG), its ESL asset in Vancouver (Cloud Nine College) and its ESL curriculum (Cloud Nine ESL Program) product.

The third objective, given the Company’s finite resources and the current state of the ESL industry in Canada, is to divest C9EG of any asset or operation which does not produce significant EBITDA in order that working capital can be preserved and greater emphasis can be placed on the marketing and sale of its Cloud Nine ESL Program.

The Company began executing the divestment strategy in the last quarter of 2015 by selling the International Language Institute - Halifax to Success College located in Nova Scotia. The Company then

suspended operations of the IELTS English language proficiency test and then subsequently decided to cease offering any CELTA teacher training courses in Canada.
Management at C9EG believe strongly that acquiring another ESL school is not critical to securing the Company's future. However, generating sales of the Cloud Nine program will lead to financial stability, long term corporate viability and prominence within both the national and international ESL markets.

Corporate Development Strategy – Elements for Execution

ESL School Vancouver

The management team is intricately involved in the recruitment of foreign students who come to study ESL at the Company's school in Vancouver. The Company anticipates that it will continue to operate and grow the school in Vancouver, despite the fact that it will not significantly contribute to the Company's overall financial interests once sales from the C9 ESL program are well established.

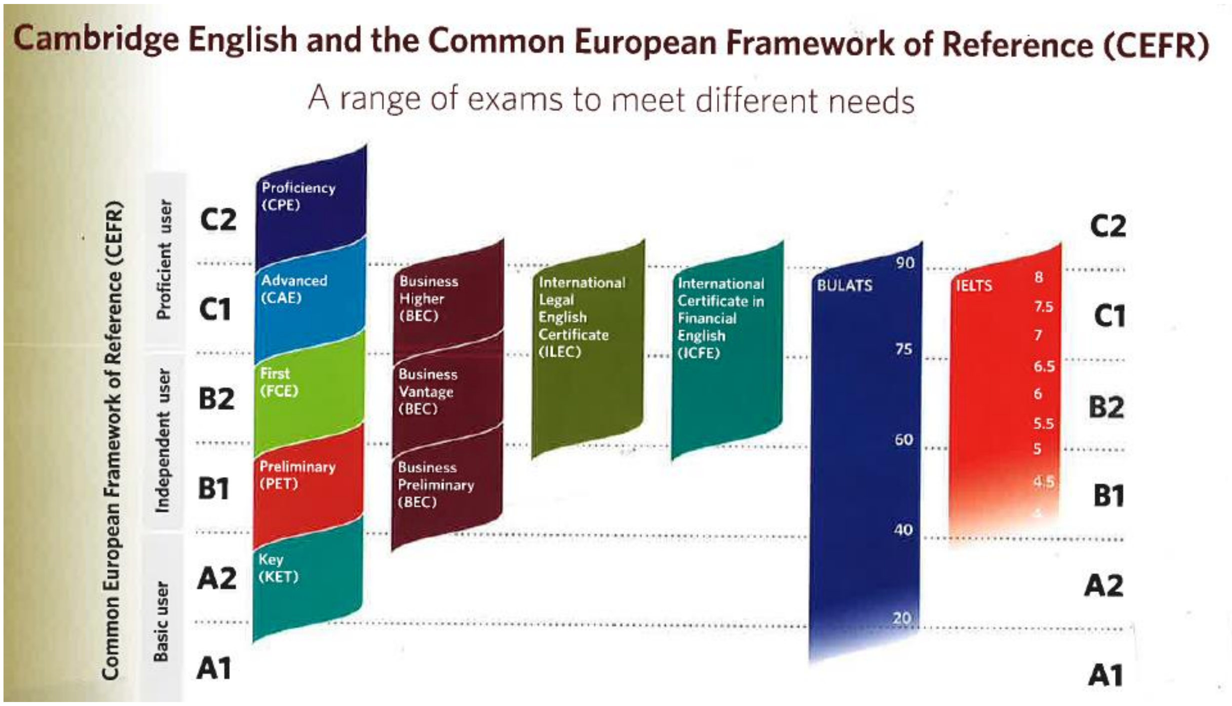
Setting aside the relatively modest revenues generated by its ESL school, Cloud Nine College does facilitate two important functions for the Company. First, the school provides a real life environment in which pedagogy and methodology for the C9 Program can be further developed and refined. Second, the school serves as a showroom for the curriculum which students, agents and prospective clients can come and visit.

With this understanding in place, C9EG management believe that there is good reason to maintain, and even expand, enrolment at Cloud Nine College provided these operations can be developed in such a way that the asset complements and supports ongoing C9 ESL Program development and sales.

Cloud Nine Curriculum Development

While the strategy to divest itself of other assets noted in *"Corporate Objectives"* (above) is relatively new, the corporate development plan to create and market a proprietary, digitally based ESL curriculum is not. The Company intended to create an ESL curriculum in June 2013 when The Company was first incorporated and began actively developing the C9 Program as soon as it acquired the International Language Institute ("ILI") in September, 2014.

Cloud Nine ESL Program lessons are structured and developed using the internationally recognized Common European Frame of Reference (CEFR) as a guide. This model allows academic administrators to quickly and accurately determine if a student's linguistic ability will enable that individual to meet the institution's ESL requirements. The following chart outlines how the CEFR ranking equates to various language proficiency exams being used within the national and international ESL industry.



Cloud Nine ESL Program materials are stored in a Google drive program designed for educators. Teachers are able to manage distribution of the lessons through a system very much like a simple email and can restrict or allow students the ability to edit or modify any given document. The process enables instructors to group students together to work collaboratively on selected classroom or homework assignments yet restrict students from sharing information during exams or projects designed to be completed individually.

Every student has a folder and teachers can access all of the student's work at any given time. Students use their smart phones, tablets or computers to access and collaborate on classroom work and home study assignments. No more loose paper to keep track of. They can access their course materials individually or share their assignment and work concurrently with others from a single or multiple locations at the same time.

Teachers use their device to distribute, retrieve, store and catalogue the students work. Instructors are able to assist students with their studies at home with online guidance to ensure the main theme of lesson is understood. Study sessions from multiple remote locations changes homework from a solitary exercise into a group activity. Students are able to learn from and support their fellow students.

Cloud Nine ESL Program Marketing Strategy

Market Research & Regional Distribution in South America

Following a four-week marketing research trip to South America in June 2015, the Company determined that it should focus on the Brazilian and Mexican markets to develop its initial client base. The reason for selecting these two countries is due to the size of their population (280 million and 120 million people respectively), their low ESL proficiency, the general public's active interest in developing ESL skills and the positive response to the Cloud Nine ESL Program that the Company has received.

In order to achieve the best possible understanding of, and maximum penetration into these markets, C9EG will work with regional distributors. First because The Company will benefit from their market understanding and cultural sensitivities and second because using regional distributors provides a measure of comfort and security for prospective clients.

Working in tandem with these distributors, C9EG will utilize the services of the Canadian government embassies and consulates to assist in securing introductions to prospective and interested parties as the Company did during its successful marketing trip in 2015.

Current Sales and Marketing

The Company currently has several clients in Mexico and Brazil that are using the Cloud Nine ESL curriculum to increase the English Language capacity of their teachers before integrating the program within their student studies program(s). Other clients have begun by integrating the curriculum on a limited basis with students before extending the program on a more wide spread approach.

Several other schools in Mexico have been introduced to the program and have indicated a willingness to implement the Cloud Nine ESL Program beginning as a pilot project before fully integrating the curriculum into their course selection.

As noted below in "*Cloud Nine ESL Program Operational & Marketing Costs"* the Company is currently focused on adding a full time marketing force in Mexico and in Brazil to boost sales reduce the time it will take C9EG to become cash flow positive. The marketing team will augment and enhance the activities of Distributors and lead to increased sales; and with higher margins given that Distributor commissions will not have to be provided for internally developed sales.

The Company intends to use proceeds from the IPO to pay for the marketing team(s) and anticipates results to be realized before the end of the calendar year 2016. As sales increase, a portion of the profits will be used to increase the size of the sales and marketing teams.

Curriculum Revenue

Revenues for the Cloud Nine ESL Program are to be generated by charging students a monthly licensing fee which replaces the text book fees currently being applied. These charges will vary depending on the country in which C9EG is operating. Countries with lower average wages such as South America will be bracketed with a fee of $10 per month or $100 for the year. Students in countries such as Canada or the USA will pay between $40 to $50 per month or $400 to $500 for the year.

The Company's business model is predicated on C9EG retaining 70 - 80% of the revenue with the remaining 20 - 30% being used to compensate regional distributors and participating institutions. The distributors are required to cover all of their own employee wages, benefits and travel costs along with promotional costs within the region they market the Cloud Nine Program.

The business model seeks to attract more than 5,000 users within the first 6 months of closing the IPO so that the Cloud Nine Program is able to cover its ongoing operational costs. In order to achieve this objective C9EG is working with Canadian government (trade and commerce) officials in Brazil, Mexico and Peru to identify universities, technical institutes, high schools and ESL providers who may have expressed an interest in implementing the Cloud Nine program.

Cloud Nine ESL Program Operational & Marketing Costs

The Company has reviewed the number of Cloud Nine ESL Program users required to ensure that the revenues generated by the curriculum meet the ongoing costs of the operation. Following that assessment, a figure of 5,000 (ongoing) users has been determined to meet the revenue requirements of the Company.

In order to achieve the objective of securing more than 5,000 users within the first 6 months of closing the IPO, the Company management team has determined that a minimum working capital pool of $500,000 will be required. This figure includes development of a website which is capable of automatically generating user names and passwords, secure delivery of the Cloud Nine ESL Program materials to instructors and paying customers including a robust e-commerce component that can process reoccurring monthly credit card transactions. The working cap also includes the recruitment of a full time sales force in Mexico and in Brazil to augment clients developed through Company distributors.

To meet its financial requirements, Company recently executed an engagement letter with Mackie Research Capital Corporation (MRCC) to sponsor the Company prospectus filing. Under the terms of the agreement MRCC will raise a minimum of $500,000 and a maximum of $1.5M which will close concurrent with the CSE listing.

<u>Corporate Competition</u>

Despite the increasing number of people around the world seeking to learn English each year, there are less than 20 curriculum developers who have positioned themselves to meet the needs of institutions and schools that offer ESL programs in the international marketplace. When one searches the internet for curriculum developers who offer ESL programs in a digital based format, there appears to be less than ten such providers.

The following chart illustrates how the Company compares with its Canadian and international counterparts. A review of the comparative analysis reveals that the Cloud Nine Education Group is the only ESL curriculum provider to develop their materials based on CEFR guidelines while also providing teacher training and certification to their clients.

	Cloud 9 Education Group	ALTA Book Center Publishers	Cambridge University Press	Delta Systems	Dominie Press	Heinle & Heinle	Linmore Publishing	National Centre for English	New Readers Press	Oxford University Press	Perason Education ESL	Pro Linqua Associates	SMRT English	TESOL	University of Michigan Press
Cloud BasedDigital Curriculum	√	x	x	x	x	x	x	x	x	x	x	x	√	x	x
CEFR Guidelines Applied	√	x	x	x	x	x	x	x	x	x	x	x	x	x	x
ESL Instructor Certification Providied	√	x	x	x	x	x	x	x	x	x	x	x	x		x
University Pathways	√	x	N/A	x	x	x	x	x	x	x	x	x	x	N/A	N/A
Presence in South America or Asia	√	x	N/A	x	x	x	x	x	x	x	√	x	√	N/A	x

Corporate Development Summary

With its low cost, digital based ESL curriculum that includes technological support and teacher certification in place, and with overseas distributors and initial sales already secured, Company management are of the view that the Company is well positioned to meet its development objectives and overcome any challenges which may arise.

Selected Financial Information

The results of operations of ILI for all periods have been classified as discontinued operations.

A summary of selected financial information for the nine months ended June 30, 2016 are as follows:

	Nine months ended June 30, 2016	Nine months ended June 30, 2015
Total assets	655,069	985,971
Intangible assets	277,300	413.711
Goodwill	-	290,575
Working capital (deficiency)	17,660	(110,560)
(Deficiency)/Equity	(349,790)	625,904
Revenue	594,593	863,687
(Loss)/Income before other expenses	(541,039)	(420,908)
(Loss)/Income from continuing operations	(699,373)	(430,908)
(Loss)/Income from discontinued operations	(62,757)	(352,816)

For the period ended June 30, 2016, the Company reported no changes in accounting policy and declared no cash dividends. As at June 30, 2016 the Company had cash of $87,036 and working capital of $17,660.

During the nine months ended June 30, 2016, the Company recognized impairment of intangible assets in the amount of $136,273.

As at June 30, 2016, the Company's curriculum is still in the development stage and will not be depreciated until the curriculum is in full use. The Company's main business development objective is the advancement and subsequently the sale of its Cloud Nine ESL Program going forward.

Summary of Quarterly Results

The results of operations of ILI for all periods have been classified as discontinued operations.

	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
Three months ended	Jun 30, 2016	March 31, 2016	Dec 31, 2015	Sep 30, 2015
Tuition fees	$ 126,392	$ 180,845	$ 208,392	$ 222,569
Testing and other income	4,507	34,912	31,645	59,811
Curriculum sales	7,900	-	-	-
Direct costs	174,690	220,746	201,952	274,075
Expenses	138,468	195,418	204,358	291,592
Other expenses	1,000	230	157,104	296,709
Impairment of goodwill	-	-	136,273	290,575
Comprehensive loss	175,359	200,637	386,134	463,358
Loss from discontinued operations	-	-	62,757	324,208

Loss per share-basic and diluted	0.02	0.01	0.02	0.01

	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter
Three months ended	Jun 30, 2015	March 31, 2015	Dec 31, 2014	Sep 30, 2014
Tuition fees	$ 83,949	$ 101,027	$ -	$ -
Testing and other income	272,594	406,117	65,110	70,000
Curriculum sales	-	-	-	-
Direct costs	285,601	517,509	60,673	-
Expenses	321,962	159,523	23,646	97,247
Other expenses	(10,000)	-	-	-
Impairment of goodwill	-	-	-	-
Comprehensive loss	153,537	319,433)	26,659	27,247)
Loss from discontinued operations	121,986	164,627	66,203	-
Loss per share-basic and diluted	0.02	0.02	0.01	0.01

Note: The results prior to March 31, 2015 only include the results of Cloud Nine College Ltd, English Canada World Organization Inc.

In January 2016, the Company's subsidiary, Anterior Education Systems Ltd., which was operating under the name "ILI Vancouver", changed its name to Cloud Nine College Ltd. and therefore, the Company recognized an impairment of intangible assets in the amount of $136,273.

As of June 2016, the Company no longer operates its International English Language Testing System ("IELTS") test centres, which were run by its subsidiary EC.

The Company's results for the period ended June 30, 2016 are discussed throughout this document, with further information disclosed for previous quarters within the respective quarterly financial statements and related management's discussion and analysis located on SEDAR.

Results of Operations

The following should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and notes attached thereto for the nine months ended June 30, 2016.

The Company's principal business is the continued development, marketing and sale of its dynamic, interactive and proprietary ESL curriculum that instructors will use in their classrooms to teach students aged 15 years and older. The curriculum replaces textbooks with tablets, while also replacing photocopying and paper documents with instructional videos and internet links. The curriculum is called the "Cloud Nine ESL Program".

The Cloud Nine ESL Program is a digitally based curriculum that is hosted in the cloud and delivered through the Company's own website by utilizing the Google Education platform provided at no cost to educators. For the three months ended June 30, 2016, the company generated its first revenue from the subscription of its digital curriculum in the amount of $7,900 from the institution schools in Mexico. The

Company is currently working with other institutions in Brazil to deliver pilot projects starting in September 2016.

The Company's Vancouver campus operates a traditional ESL school but it is used mainly to test and refine its digital "Cloud Nine ESL Program".

The Company reported a net comprehensive loss of $762,130 for the nine months ended June 30, 2016, compared to a net comprehensive loss of $783,724 for the nine months ended June 30, 2015.

On October 23, 2015, the Company completed the sale of all of the issued and outstanding securities of International Language Institute Ltd. to an arm's-length third party in consideration for $102.

Total revenue for the three months ended June 30, 2016, was $138,799 compared to $356,543 for the same period in 2015. The Company started generating curriculum sales in May 2016 from the institutions in Mexico. As previously discussed, in July 2015, the Company closed its English Canada World Organization Inc. which provides IELTS testing services and this significantly reduced testing and other income compared to the same period in 2015.

The following table shows the Company's revenue for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015:

Revenue for the three months ended June 30,		2016	2015
Tuition fees	$	126,392	83,949
Curriculum sales		7,900	-
Testing and other income		4,507	272,594
	$	138,799	356,543

Revenues from tuition fees are recognized on a straight-line basis over the period of instruction. Tuition fees invoiced in advance of course offerings are recorded as deferred revenue, and recognized in revenue over the period of instruction. Non-operating and other income such as homestay fees and activity fees are recognized when earned. Other income is comprised of homestay service fees, administrative fees for ancillary services such as airport transfer, accommodations, travel insurance, textbooks, other course material fees, and application fees. Curriculum fees are fully recognized when institutions or students subscribe as these fees are non-refundable and non-transferrable.

Cloud Nine College Ltd started operations in January 2015 and all of the results for International Language Institute Ltd. have been classified as discontinued operations. The professional fees increased from $43,749 to $103,153 for the nine months ended June as the company filed its IPO prospectus filings and occurred additional legal and audit fees.

Direct costs were $174,690 for the three months ended June 30, 2016 compared to $285,601 for the three months ended June 30, 2015. Direct costs include expenses such as occupancy, teachers' salaries, agency commissions and other expenses that are directly related to revenues. As previously discussed, in July 2015, the Company closed its English Canada World Organization Inc. which provides IELTS testing services and this significantly reduced direct costs compared to the same period in 2015.

General and administrative expenses (G&A) were $138,468 for the three months ended June 30, 2016, compared to $206,469 for the same period in the prior year. The decrease is attributed to the company not operating its subsidiary English Canada since July 2015. The other various costs increased due to the Company's filing of its IPO and related fees for audit fees and legal. The exchange and filing fees in 2016 are for Sedar filing fees and for maintaining Company's shares with a stock transfer agency.

For the three Months Ended June 30, 2016 and 2015

General and administrative expenses	2016	2015
Consulting fees	-	7,076
Depreciation	1,600	600
Regulatory and other filing fees	2,666	-
Insurance	1,200	885
Marketing and advertising	21,102	66,811
Office and administration	1,045	25,810
Professional fees	24,154	32,624
Salaries and benefits	86,698	72,663
	138,468	206,469

Liquidity and Capital Resources

As at June 30, 2016 the Company had cash of $87,036 and working capital of $17,660 and includes deferred revenue of $136,492.

For the nine months ended June 30, 2016, the Company raised a total of $567,618 through the issuance of its common shares via non-brokered private placements.

On April 21, 2016, the Company signed a 10% secured convertible debenture agreement with a shareholder in the amount of $300,000. The Debenture is due six months from the date of issuance and is repayable in full with accrued interest at 10% per annum on maturity and the Company has signed a General Security Agreement. The Holder may at any time during the term convert all or part of the Debenture into Units at a conversion price of $0.25 per Unit, where each Unit consists of one common share of the Company, and one-half common share purchase warrant, where each whole warrant gives the Holder the right to purchase one common share of the Company at $0.50 per share for 18 months.
Upon issuance of the debentures, the Company recorded a liability of $298,000. The liability component is being accreted using the effective interest rate method. The amount was calculated using a discount rate of 12%. The estimated fair value of the holders' options to convert the debentures into common shares in the amount of $2,000 has been separated from the fair value of the liability and is included in equity.

Related Party Transactions

At June 30, 2016, the Company had advanced to the Chief Executive Officer ("CEO") of the Company $5,000, which is non-interest bearing, unsecured and due on demand.

At June 30, 2016, the Company was indebted to a former director of the Company for $100,000, pursuant to a promissory note dated September 30, 2014. The amount is non-interest bearing, unsecured and is due on September 30, 2017.

At June 30, 2016, the Company was indebted to a director of the Company for $26,000 (September 30, 2015 - $26,000), pursuant to a promissory note dated August 12, 2015. The amount is unsecured, and is due on September 30, 2017. Pursuant to the promissory note, a one-time interest charge of $1,000 is payable as the amount was not paid by the maturity date. In addition, interest of 1% compounded monthly is due on the outstanding principal and interest. At June 30, 2016, the Company recognized accrued interest of $2,061 (September 30, 2015 - $163).

At June 30, 2016, the Company was indebted to a shareholder of the Company for $40,000 (September 30, 2015 - $Nil), pursuant to a promissory note dated March 29, 2016. The amount is unsecured and is due on September 30, 2017. Pursuant to the promissory note, interest of 1% compounded monthly is due on the outstanding principal within 30 days of the end of each calendar month during which is accrued. Interest will increase to 2% per month after 90 days from March 29, 2016. As at June 30, 2016, the Company recognized accrued interest of $Nil.

During the nine months ended June 30, 2016, the Company paid salaries and benefits of $90,000 (2015 - $15,000) to the CEO of the Company, and $67,500 (2015 - $10,500) to the Chief Financial Officer ("CFO") of the Company.

The Company did not incur any directors' fees in 2016.

Going concern

The Company has incurred a net loss in the period in the amount of $762,130. As at June 30, 2016 the Company had cash of $87,036 and working capital of $17,660. The operating and cash flow results raise uncertainty about the ability of the Company to continue as a going concern.

The continued operations of the Company are dependent on future profitable operations, management's ability to manage costs and the future availability of equity or debt financing. The above facts indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. These condensed interim consolidated financial statements have been prepared on the basis the Company will operate as a going concern, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. These condensed interim consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

Contractual Obligations

The Company is committed to minimum rental amounts for a lease for a long-term lease for premises. The Vancouver campus is $11,168/month (signed a 3-year lease starting on March 1, 2015).

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.

Risks and Uncertainties

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

a) Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and sundry receivable. Cash and cash equivalents balances are held with a reputable financial institution, from which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to financial instruments included in sundry receivable is remote.

b) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2016, the Company had a cash balance of $19,302 to settle current liabilities of $166,395. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

c) Future Financing Risk

The Company is in the early stages of business and has not generated a significant amount of revenue. The Company will likely operate at a loss until its business becomes established and the Company may require additional financing in order to fund future operations and expansion plans. The Company's ability to secure any required financing to sustain operations will depend in part upon prevailing capital market conditions and business success. There can be no assurance that the Company will be successful in its efforts to secure any additional financing or additional financing on terms satisfactory to management. If additional financing is raised by issuance of additional Shares, control may change and shareholders may suffer dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may be required to scale back its current business plan or cease operating.

d) Going-Concern Risk

The Company's Financial Statements have been prepared on a going-concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Company will be successful in completing equity or debt financing or in achieving profitability. The Financial Statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

e) Increased Costs of Being a Publicly Traded Company

As the Company will have publicly-traded securities, significant legal, accounting and filing fees will be incurred that at present, are not. Securities legislation and the rules and policies of the Exchange require publicly listed companies to, among other things, adopt corporate governance policies and related practices and to continuously prepare and disclose material information, all of which will significantly increase legal, financial and securities regulatory compliance costs.

f) Technology Risk

The Company's products and services are partially dependent upon advanced technologies which are susceptible to rapid technological changes. There can be no assurance that the Company's products and services will not be seriously affected by, or become obsolete as a result of, such technological changes. Further, some of the Company's services and products are currently under development and there can be no assurance that the Company's development efforts will result in viable results as conceived by the Company or at all.

There is a risk that technologies similar to the Company's Cloud 9 ESL Program could reach the market before its own; that similar products may be developed after the Cloud 9 ESL Program which may include features more appealing to customers; and that other products competing with the Company's Cloud 9 ESL Program may use advanced technology not yet incorporated in the Company's Cloud 9 ESL Program. There is also a risk that certain consumers may not accept or adopt the Company's Cloud 9 ESL Program. The occurrence of any of these events could negatively impact the level of interest generated in the Cloud 9 ESL Program and thus limit the potential revenues to be generated by the Cloud 9 ESL Program.

g) Overseas Recruitment

A portion of the Company's Canadian business is generated through overseas recruitment activities that require students to apply for student visas, and this exposes the Company to the risk of visa and immigration policy changes. Overseas student recruitment is subject to uncertainty as it is contingent upon student applications for student visas. The Company's overall business and ability to generate revenues may be negatively impacted by any reductions to the student visa program by the Canadian government. Furthermore, the Company may suffer a material adverse change if the Canadian government decreases the number of student visas offered to foreign countries where the Company actively recruits students.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is not involved in any hedging program, nor is it a party to any financial instruments that may have an impact on its financial position.

Critical Accounting Policies

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the audited financial statements for the period ended June 30, 2016.

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the general operations of the Company and facilitate the liquidity needs of its operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its working capital position, capital stock and accumulated deficit.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended June 30, 2016. The Company is not subject to externally imposed capital requirements.

Outstanding Share Data

The Company's authorized capital is unlimited common shares without par value. The following table summarizes the outstanding share capital as of August 29, 2016:

	Number of shares	Exercise price	Expiry date
Issued and outstanding common shares at August 29, 2016	29,609,210		
Warrants outstanding	6,910,730	$0.10-0.50	April 22, 2017 to November 23, 2017
Options outstanding	932,500	$0.10	April 2, 2020
Fully diluted at August 29, 2016	37,452,440		

The Company has a stock option plan (the "Plan") for directors, officers, key employees and consultants of the Company. The number of common shares subject to the options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Company and no one person may receive in excess of 5% of the outstanding common shares of the Company Currently no options have been granted or are outstanding.

Management's Responsibility for Financial Information

The Company's financial statements are the responsibility of the Company's management, and have been approved by the board of directors. The financial statements were prepared by the Company's management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements include certain amounts based on the use of estimates and assumptions.

Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

Approval

On August 29, 2016, the Board of Directors of Cloud Nine Education Group Ltd. has approved the disclosure contained in this MD&A.