

CLOUD NINE EDUCATION GROUP LTD.

Management's Discussion and Analysis

For the Year Ended September 30, 2016

Prepared as of January 30, 2017

Contact Information

Cloud Nine Education Group Ltd. (the "Company")

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General

The following discussion and analysis, prepared as of January 30, 2017 should be read together with the financial statements for the year ended September 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 year continued to demonstrate 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.

Corporate Objectives for 2017

Given the challenges involved in generating significant revenues from simply teaching ESL, the Company will be allocating its resources to achieve three fundamental tasks around corporate development over the next 12 months. Each of these tasks involves the development, promoting or sale the Company's proprietary ESL curriculum which continues to provide the greatest potential for increasing corporate revenues.

1. Expand the Company Client Base

Over the next 12 months, management will follow through with previous efforts to expand the base of clients in Latin America who use the Cloud Nine ESL Program. The region has been selected due to the number of people wishing to learn ESL; particularly in Mexico and Brazil where there is a combined population of 350Mn people who, generally, have underdeveloped English language skills.

Peru and Argentina also offer significant potential for expanding the base of curriculum users and the Company will extend its focus to these prospective markets once a base of more than 5,000 users have been secured in Mexico and Brazil and the Company is in a cash flow positive position.

While these objectives are being pursued, Cloud Nine will continue to seek clients in Canada and the United States as the schools located in these countries tend to have a greater level of internet connectivity. Further, students studying in these locales frequently pay a higher monthly book fee than would be the case in Latin America. This will enable the Company to charge a higher monthly subscription fee. The limitation is that far fewer people study ESL in these countries than in any non-English speaking country.

2. Expanding the ESL Curriculum

Being able to increase clientele is predicated on being able to provide prospective (and current) clients with a curriculum which offers more than a general English studies program. To this end the Company is engaged in three activities. The first is to expand the general English curriculum so that instructors who work for our client institutions have some ability to customize the program they teach to their students. This involves developing additional components to the curriculum. Instructors would then have five mandatory components and would be able to select three of six more components to create their course.

A second feature is to develop material for learners in grades 7, 8 and 9. This would complement the program which was created for adult learners (defined as 16 years and older) and enable Cloud Nine to offer its curriculum to high schools in addition to the universities, colleges and technical institutes which currently make up our targeted clientele.

The third expansion is to develop English curriculum content for specific purposes such as: English for business, tourism, law and aviation. The management at Cloud Nine views the part of the development strategy as an essential element in order to meet our corporate growth objectives.

3. Curriculum Content Delivery and IP Development.

The expansion of the Cloud Nine ESL Program will be complemented with a migration to a new platform through which the curriculum will be delivered our clients. The management at Cloud Nine spend several months in the latter stages of 2016 researching various options before selecting the new platform through which our clients will receive Cloud Nine ESL Program content.

The entity selected by Company management is able to provide a more stable platform than the current google option which the Cloud Nine has been using. The new content delivery provider will also be tasked with maintaining a 24/7 technical support feature ensuring that both Cloud Nine and our clients are able to have any concerns or system trouble addressed as soon as the need arises.

In addition to providing a more robust platform for delivery of the Cloud Nine ESL Program, the selected provider will be working with the Company to develop intellectual property (IP) that enhance the user experience, continue to reinforce Cloud Nine's position as a leader in the ESL industry, and create significant barriers to entry for competitors seeking to enter the digital ESL curriculum space based on the success.

Corporate Development Summary

With its cloud hosted, digital based ESL curriculum in place, management are of the view that the Company is well positioned to overcome any challenges that may arise in pursuing the objectives identified for 2017.

Selected Financial Information

A summary of selected financial information for the year ended September 30, 2016 are as follows:

	2016	2015	2014
Total assets	\$ 517,313	\$ 788,601	\$ 791,668
Intangible assets	274,172	413,711	250,000
Goodwill	-	200,000	290,575
Working capital (deficiency)	(748,856)	(252,443)	(327,653)
(Deficiency)/Equity	(530,334)	(61,660)	(31,519)
Revenue	821,980	1,261,704	70,000
(Loss)/Income before other expenses	(780,523)	(587,555)	(0.01)
(Loss)/Income from continuing operations	(926,917)	(894,264)	(0.01)
(Loss)/Income from discontinued operations	(62,757)	(677,024)	

For the year ended September 30, 2016, the Company changed the depreciation rate on leasehold improvements from 6 years straight-line basis to over the lease term and declared no cash dividends. As at September 30, 2016 the Company had cash of \$nil and working capital deficit of \$748,856.

During the year ended September 30, 2016, the Company recognized an impairment of intangible assets in the amount of \$136,273.

The increase in intangible assets during 2015 is due to the addition of the new Cloud Nine ESL Program, which the Company is currently developing.

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

	4th Quarter	3rd Quarter	2nd Quarter	1 st Quarter
Three months ended	September 30, 2016	Jun 30, 2016	March 31, 2016	Dec 31, 2015
Tuition fees	\$ 208,431	\$ 126,392	\$ 180,845	\$ 208,392
Testing and other income	8,056	4,507	34,912	31,645
Curriculum sales	10,900	7,900	-	-
Direct costs	479,618	174,690	220,746	201,952
Expenses	77,253	138,468	195,418	204,358
Other expenses	2,758	1,000	230	157,104
Impairment of goodwill	-	-	-	136,273
Foreign exchange gain	18,298	-	-	-
Comprehensive loss	227,544	175,359	200,637	386,134
Loss from discontinued operations	-	-	-	62,757
Loss per share-basic and diluted	0.01	0.01	0.01	0.01

	4th Quarter	3rd Quarter	2nd Quarter	1 st Quarter
Three months ended	Sept 30, 2015	Jun 30, 2015	March 31, 2015	Dec 31, 2014
Tuition fees	\$ 222,569	\$ 83,949	\$ 101,027	\$ -
Testing and other income	59,811	272,594	406,117	65,110
Curriculum sales	-	-	-	-
Direct costs	274,075	285,601	517,509	60,673
Expenses	291,592	321,962	159,523	23,646
Other expenses	6,134	(10,000)	-	-
Impairment of goodwill	290,575	-	-	-
Comprehensive loss	800,208	153,537	319,433)	26,659
Loss from discontinued operations	677,024	121,986	164,627	66,203
Loss per share-basic and diluted	0.01	0.01	0.02	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 September 2016, the Company no longer operates its International English Language Testing System ("IELTS") test centres, which were run by its subsidiary EC.

For the quarter ended December 31, 2016, the increase in the direct costs include reclassification of certain expenses such as non-management staff wages of \$90,000, and office expenses of \$34,000 and the increase was due to the summer camp that was held at Vancouver campus which hosted 90 summer students.

The Company's results for the period ended September 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.

Sale of ILI

On October 23, 2015, the Company entered into a share purchase agreement to sell all of the issued and outstanding securities of International Language Institute Ltd. to an arm's-length third party in consideration for \$102. The operations of ILI have been classified as discontinued operations as at September 30, 2015.

Assets that are held for disposal are classified as discontinued operations and are valued at the lower of their carrying amounts and fair value less costs to sell. The Company presents assets and liabilities associated with assets held for sale separately from the Company's other assets and liabilities. A discontinued operation is a component of the Company that either has been disposed of, or is classified as held for sale. Net income (loss) of the discontinued operations with gain or loss recognized on disposal are combined and presented in the statement of comprehensive income (loss) and cash flows are to be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. International Language Institute Ltd. meets the criteria to be classified as assets held for sale and discontinued operations as of September 30, 2015 and therefore, assets and liabilities of International Language Institute Ltd. have been classified as assets and liabilities held for sale and the results of operations of International Language Institute Ltd. for all periods have been classified as discontinued operations.

Results of Operations

The following should be read in conjunction with the audited consolidated financial statements of the Company and notes attached thereto for the year ended September 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 year ended September 30, 2016, the company generated its first revenue from the subscription of its digital curriculum in the amount of \$18,800 from the institution schools in Mexico. The Company is currently working with other institutions in Brazil to deliver pilot projects starting in the spring 2017.

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 \$989,674 for the year ended September 30, 2016, compared to a net comprehensive loss of \$1,571,288 for the year ended September 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 September 30, 2016, was \$208,431 compared to \$222,569 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 year ended September 30, 2016, as compared to the year ended September 30, 2015:

Revenue for the year ended September 30,	2016	2015
Tuition fees	\$ 724,060	407,544
Digital Curriculum sales	18,800	-
Testing and other income	79,120	855,160
	<u>\$ 821,980</u>	<u>1,262,704</u>

The increase in tuition fee revenue was from the Vancouver campus (9 months in 2015 vs full 12 months in 2016, also second year of operations resulted in higher tuition revenue).

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. The digital curriculum was amortized by \$19,584 since it was available for sale in the last quarter ended September 30, 2016.

Direct costs were \$479,618 for the three months ended September 30, 2016 compared to \$274,075 for the three months ended September 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. Also, the Company's subsidiary "Cloud Nine College Ltd." Was in its first year of operations in 2015 and had limited revenue generated from its Vancouver campus compared to the same period in its second year of operations in 2016.

General and administrative expenses (G&A) were \$40,774 for the three months ended September 30, 2016, compared to \$122,681 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 professional costs (2016 - \$181,165 compared to 2015 - \$78,428) increased due to the Company's filing of its IPO and related fees for audit fees and legal. The company also incurred one-time consulting fees totalling \$56,500, and one-time costs of \$11,000 related to rebranding its name and Vancouver campus as "Cloud Nine College", and wrote off previous prepaid costs \$19,100 related to its design of Cisco Teleconference since the company has no plans to offer virtual classrooms in the near future.

The decrease in marketing and advertising (2016 - \$50,659 compared to 2015 - \$99,873) was due to operating one campus in Vancouver and the reduction in overseas travel when compared to the prior period. The exchange and filing fees for the year ended September 30, 2016 are costs associated with Sedar filing fees stock transfer agency costs. The increase in insurance costs in 2016 compared to 2015 was due to the cost of Director's and Officers' liability insurance in 2016 and it did not have its D&O insurance in 2015. The decrease in salaries and benefits in 2016 compared to 2015 was to due a reduction in staff caused by the closure of English Canada World Organization Inc. in 2016.

The professional fees were mostly legal and audit fees related to IPO filings

For the year Ended September 30, 2016 and 2015

General and administrative expenses	2016	2015
Consulting fees	\$ -	\$ 32,006
Depreciation	24,379	1,200
Regulatory and other filing fees	12,901	-
Insurance	9,261	4,639
Marketing and advertising	50,659	99,873
Professional fees	181,165	78,428
Salaries and benefits	210,970	368,111
	<u>\$ 489,335</u>	<u>\$ 587,555</u>

Fourth Quarter events

In July and August 2016, the Vancouver campus had summer camp and had over 90 students from overseas.

The digital curriculum development was on minimum as the company's primary focus was on completing its IPO in November 2016.

The company's main focus in the fourth quarter of 2016 was to complete its initial public offering (the "Offering") of 2,035,000 units of the Corporation at \$0.25 per unit for aggregate gross proceeds of \$508,750. The common shares of the Company were listed on the Canadian Securities Exchange (the "CSE") and started trading on the on December 1, 2016, under the symbol "CNP".

Liquidity and Capital Resources

As at September 30, 2016 the Company had cash of \$nil and negative working capital of \$748,856 which includes deferred revenue of \$79,492.

For the year ended September 30, 2016, the Company raised a total of \$565,789 net of share issuance costs 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 on October 22, 2016 and is repayable in full with accrued interest at 10% per annum on maturity and the Company has signed a General Security Agreement. The Holder may at any time during the term convert all or part of the Debenture into Units at a conversion price

of \$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

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

During the year ended September 30, 2016, the Company paid salaries and benefits of \$120,000 (2015 - \$108,300) to the CEO of the Company.

During the year ended September 30, 2016, the Company paid salaries and benefits of \$78,750 (2015 - \$78,750) to the Chief Financial Officer ("CFO") of the Company.

At September 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 was due on September 30, 2015. On November 3, 2015, the Company entered into an agreement to extend the maturity date to December 1, 2016 for a one-time interest charge of \$20,000.

At September 30, 2016, the Company was indebted to a director of the Company for \$26,000 (2015 - \$26,000), pursuant to a promissory note dated August 12, 2015. The amount is unsecured, and is due on demand. Pursuant to the promissory note, a one-time interest charge of \$1,000 is payable as the amount was not paid by the maturity date. In addition, interest of 1% compounded monthly is due on the outstanding principal and interest. At September 30, 2016, the Company recognized accrued interest of \$3,224 (2015 - \$163).

At September 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 demand. As at September 30, 2016, the Company recognized accrued interest of \$3,600. The full amount of the loan was paid back on November 28, 2016.

At September 30, 2016, the Company was indebted to two directors of the Company for loans totalling \$6,750 (September 30, 2015 - \$Nil). The loans are unsecured, non-interest bearing, and due on demand.

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.

On November 25, 2016, the Company completed its initial public offering (the "Offering") of 2,035,000 units of the Corporation at \$0.25 per unit for aggregate gross proceeds of \$508,750. Each unit is comprised of one common share and one-half of one warrant. Each whole warrant is exercisable to purchase one common share at \$0.50 per share until May 25, 2018. In connection with the Offering, the Company paid the agent a commission of \$45,788 and 183,150 warrants exercisable at \$0.25 per share until May 25, 2018. The common shares of the Company were listed on the Canadian Securities Exchange (the "CSE") and started trading on the on December 1, 2016, under the symbol "CNI".

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 September 30, 2016, the Company had a cash balance of \$27,600 to settle current liabilities of \$332,588. 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 September 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 September 30, 2016. The Company is not subject to externally imposed capital requirements.

Subsequent Events

On November 25, 2016, the Company completed its initial public offering (the "Offering") of 2,035,000 units of the Corporation at \$0.25 per unit for aggregate gross proceeds of \$508,750. Each unit is comprised of one common share and one-half of one warrant. Each whole warrant is exercisable to purchase one common share at \$0.50 per share until May 25, 2018. In connection with the Offering, the Company paid the agent a commission of \$45,788 and 183,150 warrants exercisable at \$0.25 per share until May 25, 2018. The common shares of the Company were listed on the Canadian Securities Exchange (the "CSE") and started trading on the on December 1, 2016, under the symbol "CNI".

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 January 30, 2016:

	Number of shares	Exercise price	Expiry date
Issued and outstanding common shares at January 30, 2017	32,104,210		
Warrants outstanding	6,223,880	\$0.10-0.50	April 22, 2017 to May 25, 2018
Options outstanding	820,000	\$0.10	April 2, 2020
Fully diluted at January 30, 2017	39,148,090		

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 January 30, 2017, the Board of Directors of Cloud Nine Education Group Ltd. has approved the disclosure contained in this MD&A.