CLOUD NINE EDUCATION GROUP LTD.

Management's Discussion and Analysis
For the Three Months Ended December 31, 2016
Prepared as of February 28, 2017

<u>Contact Information</u>
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General

The following discussion and analysis, prepared as of February 28, 2017 should be read together with the financial statements for the three months ended December 31, 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

Corporate Development 2017

In the fiscal year 2017, Cloud Nine will be focusing its efforts primarily at developing sales of its ESL curriculum. The Company's first objective is to establish a base of 5,000 paying users which would position Cloud Nine as a cash flow positive corporation.

Management at Cloud Nine are confident objective can be realized in 2017. During a marketing trip to Mexico in February it was evident that the Cloud Nine ESL Program is highly regarded. The curriculum's adherence to learning outcomes established by the Common European Framework of Reference combined with the Flipped Classroom methodology and ability to keep the content current due to its cloud hosted nature resonated well with institutional administrators. The Company's internal ability to customize the content to meet client needs in the areas of business, tourism and aviation are other capacities which set Cloud Nine apart from other vendors who are simply reselling materials bought from third party providers.

Cloud nine Education Group intends to move away the current method of delivering content through google drive and seek a more stable and established platform. The firm selected to perform that role will also assist Cloud Nine to develop some Intellectual Property which will make the curriculum even more engaging for students while creating barriers to entry for competitors.

Migrating to the new platform, developing the IP and establishing dedicated sales offices in Mexico and Brazil will require capital. With this understanding the Company recently announced a Non-Brokered Private Placement for proceeds of up to $1M which would enable Cloud Nine to successfully undertake the activities referenced in this MD&A.

Management are doing their utmost to secure curriculum sales contracts and decrease reliance on having to raise capital in the market. The next two fiscal quarters will be important ones to demonstrate the acceptance of our ESL curriculum with institutional administrators, and management's ability to meet it development objectives.

Selected Financial Information

A summary of selected financial information for the period ended December 31, 2016 are as follows:

	Three months ended December 31, 2016	Year Ended September 30, 2016	Three months ended December 31, 2015
Total assets	$ 451,530	$ 517,313	614,767
Intangible assets	265,529	274,172	222,766
Working capital (deficiency)	(568,644)	(748,856)	(109,952)
(Deficiency)/Equity	(434,870)	(530,334)	(44,794)
Revenue	131,545	821,980	240,037
(Loss)/Income before other expenses	(223,388)	(780,523)	(166,273)
Other expenses	(242)	(146,394)	(157,104)
(Loss)/Income from continuing operations	(223,629)	(926,917)	(323,377)
(Loss)/Income from discontinued operations	-	(62,757)	(62,757)

As at December 31, 2016 the Company had cash of $24,982 and working capital deficit of $528,644.

The change in intangible assets is due to the depreciation of the Digital 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. Although the Vancouver campus generates tuition revenue from the students who come from overseas, this will be not the main revenue going forward.

Summary of Quarterly Results

	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Three months ended	December 31, 2016	September 30, 2016	Jun 30, 2016	March 31, 2016	Dec 31, 2015
Tuition fees	$ 115,489	$ 208,431	$ 126,392	$ 180,845	$ 208,392
Testing and other income	16,056	8,056	4,507	34,912	31,645
Curriculum sales	-	10,900	7,900	-	-
Direct costs	200,764	479,618	174,690	220,746	201,952
Expenses	154,168	77,253	138,468	195,418	204,358
Other expenses	242	2,758	1,000	230	157,104
Impairment of goodwill	-	-	-	-	136,273
Foreign exchange gain	-	18,298	-	-	-

Comprehensive loss	223,629	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	0.01

	4th Quarter	3rd Quarter	2nd Quarter	1st 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

The Company's results for the period ended December 31, 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 audited consolidated financial statements of the Company and notes attached thereto for the three months ended December 31, 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 December 31, 2016, the company did not generate any income from sale of its digital curriculum overseas. The Company is currently working with other institutions in Brazil and Mexico 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 $223,629 for the three months ended December 31, 2016, compared to a net comprehensive loss of $386,164 for the three months ended December 31, 2015.

Total revenue for the three months ended December 31, 2016, was $131,545 compared to $240,037 for the same period in 2015. The decrease is mainly due to the level of winter camps that was offered at the Vancouver campus.

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 December 31, 2016, as compared to the year ended December 31, 2015:

Revenue for the three months ended December 31,		2016	2015
Tuition fees	$	115,489	208,392
Digital Curriculum sales		-	-
Testing and other income		16,056	31,645
	$	131,545	240,037

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 $13,000 since it was available for sale in the last quarter ended December 31, 2016.

Direct costs were $200,764 for the three months ended December 31, 2016 compared to $250,683 for the three months ended December 31, 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.

General and administrative expenses (G&A) were $154,168 for the three months ended December 31, 2016, compared to $149,865 for the same period in the prior year. The professional costs (2016 - $10,295 compared to 2015 - $37,423) decreased due to the Company's filing of its IPO and related fees for audit fees and legal in 2015.
The company also incurred consulting fees to two individual consultants totalling $44,650 for providing Investor relations and also paid a one-time expense of $90,000 to a company for general Investor relations and promotion related expenses which will be amortized over the next nine months starting in December 2016.

The exchange and filing fees of $19,434 for the three months ended December 31, 2016 (2015 – Nil) are costs associated with Sedar filing fees stock transfer agency costs.

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

For the three months Ended December 31, 2016 and 2015

General and administrative expenses		2016		2015
Consulting fees	$	44,650	$	-
Depreciation		13,600		600
Regulatory and other filing fees		19,434		-
Insurance		1,959		4,639
Marketing and advertising		11,730		17,470
Professional fees		10,295		37,423
Salaries and benefits		52,500		89,226
	$	154,168	$	149,865

Fourth Quarter events

The company's main focus in the first 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 "CNI".

Liquidity and Capital Resources

As at December 31, 2016 the Company had cash of $24,982 and negative working capital of $528,644 which includes deferred revenue of $176,492.

For the three months ended December 31, 2016, the Company raised a total of $339,094 net of share issuance costs through the issuance of its common shares at IPO. The company also received $40,000 from the exercise warrants during the period.

On April 22, 2016, the Company signed a 10% secured convertible debenture agreement with a shareholder in the amount of $300,000. The convertible debenture is due on October 22, 2016, and is repayable in full with accrued interest at 10% per annum on maturity and the Company has signed a General Security Agreement. The Holder may at any time during the term convert all or part of the Debenture into Units at a conversion price of $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 Debenture, 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 debenture into common shares in the amount of $2,000 has been separated from the fair value of the liability and is included in equity. During the three months ended December 31, 2016, the Company recognized accretion of the discount on the convertible debenture of $242. At December 31, 2016, the carrying value of the convertible debenture was $300,000. The Company is in negotiation with the Holder on revising the terms of the convertible debenture agreement.

Related Party Transactions

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

During the three ended December 31, 2016, the Company paid salaries and benefits of $30,000 (2015 - $30,000) to the CEO of the Company, and incurred management fees of $22,500 (2015 - $22,500) to a Company controlled by 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 (2015 - $100,000), pursuant to a promissory note dated September 30, 2014. The amount is non-interest bearing, unsecured and was due on September 30, 2015. On November 3, 2015, the Company entered into an agreement to extend the maturity date to December 1, 2016 for a one-time interest charge of $20,000. The Company is in negotiation on revising the terms of the promissory note.

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 original maturity date on September 12, 2015. 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 December 31, 2016, the Company was indebted to a director of the Company for loan totalling $3,750 (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".

The Company announced that it is conducting a non-brokered private placement of up to four million units at 25 cents per unit for gross proceeds of up to $1-million. The company has closed a first tranche of the private placement comprising 416,000 units for gross proceeds of $104,000 in February 2017.

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 December 31, 2016, the Company had a cash balance of $24,982 to settle current liabilities of $748,453. 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 has 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 Nine ESL Program could reach the market before its own; that similar products may be developed after the Cloud Nine ESL Program which may include features more appealing to customers; and that other products competing with the Company's Cloud Nine ESL Program may use advanced technology not yet incorporated in the Company's Cloud Nine ESL Program. There is also a risk that certain consumers may not accept or adopt the Company's Cloud Nine ESL Program. The occurrence of any of these events could negatively impact the level of interest generated in the Cloud Nine ESL Program and thus limit the potential revenues to be generated by the Cloud Nine 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 December 31, 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 December 31, 2016. The Company is not subject to externally imposed capital requirements.

Subsequent Events

Subsequent to December 31, 2016, the Company issued 400,000 shares pursuant to the exercise of 400,000 warrants for gross proceeds of $40,000.

The Company announced that it is conducting a non-brokered private placement of up to four million units at 25 cents per unit for gross proceeds of up to $1-million.

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 27, 2017:

	Number of shares	Exercise price	Expiry date
Issued and outstanding common shares at January 27, 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 February 28, 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 February 28, 2017, the Board of Directors of Cloud Nine Education Group Ltd. has approved the disclosure contained in this MD&A.