

CLOUD NINE EDUCATION GROUP LTD.

Management's Discussion and Analysis
For the Six Months Ended March 31, 2017
Prepared as of May 29, 2017

Contact Information
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General

The following discussion and analysis, prepared as of May 29, 2017 should be read together with the financial statements for the six months ended March 31, 2017 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

Over the past fiscal quarter, the Company has undertaken a series of actions to increase revenues, create a stronger sales platform and execute agreements which add credibility and certainty with prospective clients situated outside Canada.

The Company executed an agreement with three institutions in the Mexican State of Michoacan that have a combined enrollment of 70,000 students in the capital city of Zamora and nearly 600,000 students across the province. The agreement, as announced in a News Release on April 04, 2017, comes in the form of a scholarship program backed by the State government that provides students residing in Zamora an opportunity to come to Canada and study ESL at Cloud Nine College (“CNC”) exclusively. Cloud Nine will endeavor to expand the scholarship to the rest of the students living in Michoacan and attending the participating institutions over the course of the next two to three fiscal quarters.

Cloud Nine management are of the view that the scholarship program could bring in 50 students per month (or more) to study at Cloud Nine College. Such an occurrence would increase tuition revenue by approximately \$700,000 per year. Of equal importance is that the program is designed to bring students to Vancouver during the slower parts of the year; and keep CNC at full capacity year-round.

The Company also executed an agreement with a prestigious Canadian private school which will generate revenues for the Cloud Nine ESL Program and create additional credibility to assist in selling the program outside of Canada.

Company management have determined that the shareholders would be better served if there was less reliance on distributors and more direct sales of the Cloud Nine ESL Program taking place. With that view in mind, the Company has hired a Manager to direct sales of the Cloud Nine ESL Program in Mexico. The Company’s objective is to target three specific regions in Mexico that have the potential to generate more than 250,000 users over the next 24 – 36 months but confined enough to be managed from one central control center.

Management is of the view that these actions will add significantly to the Company’s ability to generate revenue and become cash flow positive in the quickest possible timeframe.

Selected Financial Information

A summary of selected financial information for the three months ended March 31, 2017 and March 31, 2016 are as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Total assets	\$ 437,338	\$ 562,964
Intangible assets	260,990	247,524
Working capital (deficiency)	(558,232)	(265,147)
(Deficiency)/Equity	(469,596)	(176,431)
Total Revenue	230,413	215,757
Gross profit	(64,118)	(4,989)
General and administrative expenses	170,609	195,418
(Loss)/Income before other expenses	(234,727)	(200,407)

The curriculum was available for sale at March 31, 2017 and the company recognized amortization expense of \$13,000 for the three month and \$26,000 for the six months ended March 31, 2017.

Summary of Quarterly Results

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Three months ended	March 31, 2017	December 31, 2016	September 30, 2016	Jun 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	Jun 30, 2015
Tuition fees	\$219,493	\$ 115,489	\$ 208,431	\$ 126,392	\$ 180,845	\$ 208,392	\$ 222,569	\$ 262,172
Testing and other income	13,920	16,056	8,056	4,507	34,912	31,645	59,811	355,785
Curriculum sales	-	-	10,900	7,900	-	-	-	-
Direct costs	277,531	200,764	479,618	174,690	220,746	201,952	274,075	345,139
G&A Expenses	170,609	154,168	77,253	138,468	195,418	204,358	291,592	541,848
Other expenses	-	242	2,758	1,000	230	157,104	296,575	10,000
Foreign exchange gain	-	-	18,298	-	-	-	-	-
Comprehensive loss	234,727	223,629	227,544	175,359	200,637	386,134	463,358	279,030
Loss per share-basic and diluted	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

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.

The company did not generate any curriculum sales during the three months ended March 31, 2017.

The Company's results for the period ended March 31, 2017 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 March 31, 2017.

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 flipped classroom methodology. For the three months ended March 31, 2017, 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 summer 2017 and start generating curriculum sales in the Q3 and Q4 of 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 revenue generated from the Vancouver campus will not be the main revenue going forward.

Total revenue for the three months ended March 31, 2017, was \$219,493 compared to \$215,757 for the same period in 2016. The revenue was from the operation of the Vancouver campus and the company did not generate any curriculum sales for the quarter.

The Company reported a net comprehensive loss of \$234,727 for the three months ended March 31, 2017, compared to a net comprehensive loss of \$200,637 for the same period in 2016.

The following table shows the Company's revenue for the three and six months ended March 31, 2017 as compared to the same period ended March 31, 2016:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Tuition fees	\$ 219,493	180,845	334,982	389,237
Digital Curriculum sales	nil	nil	Nil	Nil
Testing and other income	13,920	34,912	29,975	66,557
	\$ 230,413	215,757	364,958	455,794

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 for the quarter ended March 31, 2017 since it was available for sale at March 31, 2017.

Direct costs were \$277,531 for the three months and \$511,295 for the six months ended March 31, 2017 compared to \$220,746 for the three months and \$458,860 for the six months ended March 31, 2016. Direct costs include expenses such as occupancy, direct wages and salaries, agency commissions and other expenses that are directly related to revenues.

General and administrative expenses (G&A) were \$170,609 for the three months and \$311,777 for the six months ended March 31, 2017, compared to \$195,418 for the three months and \$363,614 for the six months in the prior year. The company incurred consulting fees totalling \$59,700 for the three months and \$104,350 for the six months ended (2016 - \$nil) for providing investor relations and corporate development.

The exchange and filing fees of \$11,169 for the three months and \$30,603 for the six months ended March 31, 2017 (2016 – \$8,380 for the three months and six months) are costs associated with Sedar filing fees stock transfer agency costs.

The professional fees of \$35,285 for the three months and \$45,580 for the six months were mostly legal and audit fees (2016 - \$41,576 for three months and \$78,999 for the six months). The salaries and wages only include the wages for management and all other direct wages and salaries are classified as direct costs.

For the three and six months Ended March 31, 2017 and 2016

General and administrative expenses	Three months ended		Six months ended	
	2017	2016	2017	2016
Consulting fees	\$ 59,700	-	104,350	-
Depreciation	600	1,200	1,200	1,800
Regulatory and other filing fees	11,169	8,380	30,603	8,380
Insurance	3,551	566	5,510	5,712
Marketing and advertising	9,317	6,107	21,047	23,577
Professional fees	35,285	41,576	45,580	78,999
Salaries and wages	50,987	123,996	103,487	213,222
	\$ 170,609	195,418	311,777	363,614

Fourth Quarter events

The company's focus in the second quarter of 2017 was to establish sales and marketing of its digital curriculum in Mexico. The company also focussed on closing the 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. The company has closed third tranche of private placement and continues to raise capital up to \$1M.

Liquidity and Capital Resources

As at March 31, 2017 the Company had cash of \$43,774 and negative working capital of \$558,232 which includes deferred revenue of \$54,492, shareholder loans of \$181,059 and convertible debenture of \$300,000.

For the three months ended March 31, 2017, the Company raised a total of \$144,000 net of share issuance costs through the issuance of its common shares by private placements.

On May 8, 2017, the Company closed the second tranche of its non-brokered private placement and issued 1,257,200 units for gross proceeds of \$176,008

May 29, 2017, the Company closed the third tranche of its non-brokered private placement and issued 178,571 units for gross proceeds of \$25,000

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 March 31, 2017, 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 2017.

At March 31, 2017, the Company was indebted to the Chief Executive Officer ("CEO") of the Company for \$48,085 (September 30, 2016 - \$nil), which is non-interest bearing, unsecured and due on demand.

At March 31, 2017, 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 March 31, 2017, the Company was indebted to a director of the Company for \$26,000 (September 30, 2016 - \$26,000), pursuant to a promissory note dated August 12, 2015. The amount is unsecured, and was due on September 12, 2015. 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.

During the six months ended March 31, 2016, the Company paid salaries and benefits of \$60,000 (2016 - \$60,000) to the CEO of the Company, and \$45,000 (2016 - \$45,000) to the Company controlled by the Chief Financial Officer ("CFO") of the Company.

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.

The Company is in negotiation with the convertible debenture holder on revising the terms of the convertible debenture agreement which include converting part of the debenture into shares of the company.

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 closed a first tranche of the private placement comprising 416,000 units for gross proceeds of \$104,000 in February 2017. On May 8, 2017, the Company closed the second tranche of its non-brokered private placement and issued 1,257,200 units for gross proceeds of \$176,008 and on May 29, 2017, the Company closed the third tranche of its non-brokered private placement and issued 178,571 units for gross proceeds of \$25,000.

The Company continues to raise capital via private placement and is working on raising additional capital within the next quarter to satisfy its debt obligations. Also the Company is contemplating in obtaining a bridge loan finance to supplement its cash requirement going forward.

To date, the Company has not heard any response from the British Council regarding its dispute in the amount of \$177,947 and does not expect to pay the amount until the dispute is settled.

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 \$43,774 to settle current liabilities of \$728,987 including deferred revenues \$54,492, shareholder loans \$181,059, and convertible debenture \$300,000. Trade and other payables are due within the next 12 months.

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 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 March 31, 2017. The Company is not subject to externally imposed capital requirements.

Subsequent Events

On April 4, 2017, the Company granted 1.8 million stock options to certain directors, officers, consultants and employees of the company. The stock options are exercisable for a period of five years at an exercise price of 14 cents per share.

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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 May 29, 2017:

	<u>Number of shares</u>	<u>Exercise price</u>	<u>Expiry date</u>
Issued and outstanding common shares at May 28, 2017	34,355,981		
Warrants outstanding	7,467,651	\$0.10-0.50	April 22, 2017 to May 25, 2018
Options outstanding	820,000 1,800,000	\$ 0.10 \$ 0.14	April 2, 2020 April 4, 2022
Fully diluted at May 28, 2017	<u>44,443,632</u>		

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 May 29, 2017, the Board of Directors of Cloud Nine Education Group Ltd. has approved the disclosure contained in this MD&A.