



ATLAS CLOUD ENTERPRISES INC.

**Consolidated Interim Financial Statements
For the nine months ended February 29, 2016**

Q3 Fiscal 2016

**(Expressed in Canadian dollars)
(Unaudited - Prepared by Management)**

ATLAS CLOUD ENTERPRISES INC.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company as at February 29, 2016 and 2015, notes to the unaudited consolidated interim financial statements and related Management's Discussion and Analysis have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

ATLAS CLOUD ENTERPRISES INC.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian dollars)

		February 29, 2016	February 28, 2015
ASSETS			
Current			
Cash		\$38,191	\$24,881
Amounts receivable		24,166	35,332
Total current assets		62,357	60,213
Deposits		3,227	3,825
Intangible assets (Note 5)		362,573	573,292
Property and equipment (Note 6)		639,064	475,399
Total assets		\$1,067,221	\$1,112,729
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities (Note 8)		\$139,100	\$27,734
Short-term loans payable (Note 12)		200,000	-
Total liabilities		339,100	27,734
Shareholders' equity			
Share capital (Note 7)		1,938,801	1,909,128
Equity reserves (Note 7)		202,052	185,878
Deficit		-1,412,769	-1,010,011
Total shareholders' equity		728,121	1,084,995
Total liabilities and shareholders' equity		\$1,067,221	\$1,112,729

Basis of presentation and going concern (Note 2)
Commitments (Note 11)

On behalf of the Board:			
<i>"Frederick W. Stearman"</i>	Director	<i>"Laurie W, Sadler"</i>	Director

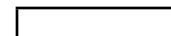
The accompanying notes are an integral part of these consolidated financial statements.

ATLAS CLOUD ENTERPRISES INC.
CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Co-location services income	\$10,705	\$ -	\$22,462	\$-
Co-working space rental income	35,866	15,696	92,530	15,696
Property operating expenses	-19,298	-	-56,494	-
GROSS MARGIN	27,246	15,696	58,498	15,696
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortization	\$63,054	\$78,514	\$192,540	\$171,324
Consulting (Note 8)	-	-	-	5,000
Finance costs (Note 12)	-	-	40,000	-
Stock-based compensation	-	-	-	146,855
Interest expense (Note 12)	4,000	-	5,365	-
Office facilities and administrative services (Note 8)	21,074	21,000	60,454	61,000
Office and sundry	10,932	20,445	45,548	26,044
Professional fees	39,282	11,485	62,505	99,830
Transfer agent, listing and filing fees	2,744	3,104	10,513	19,438
Travel and promotion	680	1,114	1,187	1,114
	-141,766	-135,662	-418,112	-530,605
Interest Income	5	-	70	243
	5	-	70	243
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	-114,520	-119,966	-359,544	-514,666
Basic and diluted loss per common share	\$0.01	\$0.01	\$0.02	\$0.05
Weighted average number of common shares outstanding	16,908,833	12,816,611	16,705,486	10,743,273

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

ATLAS CLOUD ENTERPRISES INC.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(Expressed in Canadian dollars)



	Share Capital		Equity Reserves	Deficit	Total
	Number of Shares	Amount			
Balance at May 31, 2014	7,225,000	\$559,631	\$38,130	-\$461,671	\$136,090
Shares issued on private placement	4,150,500	622,575	-	-	622,575
Shares issued on asset acquisition-Atlas	5,000,000	743,673	-	-33,674	709,999
Share issue costs	-	-41,858	-	-	-41,858
Shares issued on asset acquisition-Cranium	200,000	26,000			26,000
Finders' warrants on private placement	-	(893)	893	-	-
Share-based compensation			146,855		146,855
Loss and comprehensive loss	-	-	-	-514,666	-514,666
Balance at February 28, 2015	16,575,500	\$1,909,128	\$185,878	-\$1,010,011	\$1,084,995
Balance at May 31, 2015	16,575,500	\$1,899,281	\$202,052	-\$1,053,188	\$1,048,145
Shares issued on loan advances	333,333	40,000	-	-	40,000
Share issue costs	-	(480)	-	-	(480)
Loss and comprehensive loss	-	-	-	-359,544	-359,544
Balance at February 29, 2016	16,908,833	\$1,938,801	\$202,052	-\$1,412,732	\$728,121

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

ATLAS CLOUD ENTERPRISES INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian dollars)

	For the nine months ended	
	February 29 2016	February 28 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	-\$359,544	-\$514,666
Non-operating item:		
Interest income	70	(243)
Items not involving cash		
Amortization	192,540	171,324
Finance costs	40,000	146,855
Interest paid or accrued	5,365	-
Property operating expense	1,182	-
Changes in non-cash working capital items:		
Amounts receivable	14,422	-26,614
Prepays and Deposits	-1,202	1,800
Accounts payable and accrued liabilities	53,060	-46,919
Due to shareholder	-	-15,633
Net cash used in operating activities	-54,247	-284,096
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	70	243
Purchase of equipment	-120,667	-442,911
Net cash provided by (used in) investing activities	-120,597	-442,668
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	-	622,575
Finder's fee on private placement	-	-40,735
Share issue costs	(480)	-1,123
Advances of short-term loans	200,000	-
Net cash provided by financing activities	199,520	580,717
Change in cash for the period	24,676	-146,047

Cash, beginning of period	13,515	170,928
Cash, end of period	\$38,191	24,881
Non-cash transactions		
Shares issued on advances of short-term loans (Notes 7&12)	\$40,000	\$-
Cash paid or accrued for interest or taxes	\$5,365	\$-

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

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

1. NATURE OF OPERATIONS

Atlas Cloud Enterprises Inc. (the “Company”), which was incorporated under the *Business Corporations Act* (Alberta) on January 21, 2010, has a registered and records office at 2900-595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1J5.

On July 23, 2014, the Company acquired Atlas Cloud Enterprises (2013) Ltd. (Note 4).

The Company’s primary business is providing co-location and back-up/redundancy IT and telecom equipment, and Cloud computing, to small and medium size businesses in Western Canada.

2. BASIS OF PRESENTATION AND GOING CONCERN

a) Statement of Compliance

These consolidated financial statements, including comparatives have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements were approved by the Board of Directors on April 9, 2016.

b) Basis of Measurement These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

	February 29 2016	May 31, 2015
Working capital (deficiency)	-\$276,743	-\$28,571
Deficit	-1,412,769	-1,053,188

c) Going Concern

These consolidated financial statements have been prepared, in accordance with IFRS, on the assumption that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since inception. Subsequent to the Cranium asset acquisition (Note 4), it currently derives revenues from its co-working space business segment. The Company has recently commenced generating revenue from its primary business, the provision of co-location services. Its ability to continue as a going concern depends upon whether it develops profitable operations and continues to raise adequate financing. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

There can be no assurance that the Company will be able to raise the funds necessary to continue future operations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statements of financial position. The 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 operations.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

2. BASIS OF PRESENTATION AND GOING CONCERN (cont'd...)

d) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Atlas Cloud Enterprises (2013) Ltd. whose operations have been included in these consolidated financial statements since July 23, 2014. All significant intercompany balances and transactions have been eliminated on consolidation.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost” as follows:

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

(i) Financial assets at fair value through profit or loss (“FVTPL”)

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. FVTPL assets are initially recorded at fair value with unrealized gains and losses recognized through profit or loss. The Company’s cash is classified as FVTPL.

(ii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Receivables are classified as loans and receivables.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

(i) Other financial liabilities

The category consists of liabilities carried at amortized cost being the effective interest method. The Company’s accounts payable and accrued liabilities are classified as other financial liabilities.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been impacted.

For all financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principle payments; or
- It has become probable that the borrower will enter bankruptcy or financial re-organization.

-
-
ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment of financial assets (cont'd...)

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In a subsequent period if, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Share-based payment transactions

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

Stock options granted to directors, officers and employees are measured at their fair values determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options on a graded basis. Options granted to consultants or other non-insiders are measured at the fair value of the goods or services received from these parties, or at their Black-Scholes fair values if the fair value of goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.

When stock options are exercised, the cash proceeds along with the amount previously recorded as equity reserves are recorded as share capital. When the right to receive options is forfeited before the options have vested, any expense previously recorded is reversed.

Share capital

Financial instruments issued by the Company are classified as share capital only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share purchase warrants

The fair value of compensatory warrants issued by the Company are determined on their issuance date, using the Black-Scholes option pricing model, and are recorded as a component of equity reserves. When the warrants are granted as compensation for the receipt of goods or services, they are recorded either as an expense or as a cost, capitalized to share capital or assets, on the same basis as equivalent cash payments.

When share purchase warrants are exercised, the cash proceeds and their fair value previously recorded in equity reserves are recorded as share capital.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29,2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes

Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in profit or loss in the period in which the change occurs.

Deferred tax assets or liabilities, arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in profit or loss in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

(Loss) earnings per share

Basic (loss) earnings per share is calculated by dividing net (loss) earnings by the weighted average number of common shares outstanding during the period which excludes shares held in escrow whose issuance is contingent on future events.

Diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options and common share purchase warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of "in-the-money" stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period. For the years presented, this calculation proved to be anti-dilutive.

Significant accounting judgments and estimation uncertainties

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statement, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimates are revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Significant accounting judgments and estimation uncertainties (cont'd...)

(i) Critical accounting estimates (cont'd...)

a) Intangible Assets – useful lives

Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

b) Valuation of share-based payments and compensatory warrants

Share-based payments and compensatory warrants are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to profit or loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

c) Deferred income taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant judgment of future taxable profit. Management is required to assess whether it is probable that the Company will benefit from its deferred tax assets. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred income and resource tax assets.

(ii) Critical accounting judgments

a) Intangibles – impairment

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. Whenever there is an indicator for impairment management evaluates the recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. Intangibles are written down to their recoverable amount when a decline is identified. The determination of the recoverable amount requires the use of management's best assessment of the related inputs into the valuation models, such as future cash flows and discount rates.

b) Business combinations

The determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with Atlas Cloud and Cranium was determined to constitute an acquisition of assets (Note 4).

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment

Equipment is recorded at historical cost less related accumulated depreciation and impairment losses. Cost is determined as the expenditure directly attributable to the asset at acquisition, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. When an asset is disposed of, its carrying cost is derecognized. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Equipment is recorded at historical cost less related accumulated depreciation and impairment losses.

The Company provides for depreciation of equipment on a declining balance basis unless otherwise noted using the following annual rates:

Furniture and equipment	20%
Data centre equipment	30%

Leasehold improvements are amortized on a straight-line basis over the 10 year lease term.

Intangible assets

The Company owns intangible assets consisting of rights to knowledge and expertise over a specific period and co-working space rental contracts. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The Company does not hold any intangible assets with indefinite lives. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Rights to knowledge and expertise over a specific period will be amortized on a straight line basis over a period of one year which is recorded in amortization. Co-working space rental contracts will be amortized on a straight line basis over a period of one year, which is recorded in property operating expenses.

Impairment of long-lived assets

The carrying amount of the Company's long-lived assets (which includes equipment and intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment of long-lived assets (cont'd...)

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in previous periods.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statements of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

Revenue recognition

Rental revenue from co-working space rental is recognized when a tenant commences occupancy pursuant to the terms of each contract and rent is due or rights to receive consideration are obtained and collection of consideration is reasonably assured. Revenue received in advance of these criteria is deferred until future periods.

Accounting standards

New accounting standards and interpretation

The following standards and amendments to existing standards have been adopted by the Company effective June 1, 2015:

IFRS 7, Financial Instruments – Disclosure

IFRS 7 has been amended to require additional disclosures on transition from IAS 39 to IFRS 9 and is effective for annual periods beginning on or after January 1, 2015. The adoption of the standard did not materially affect the Company's financial statements.

Accounting standards issued but not yet effective

IFRS 15, Revenue from Contracts with Customers

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2017.

In May 2015, IASB proposed to defer the effective date to January 1, 2018.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Accounting standards issued but not yet effective (cont'd...)

IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Company is currently assessing whether or not the adoption of the standards above will have a material effect on the Company's future financial statements.

4. ASSET ACQUISITIONS

Atlas Cloud Enterprises (2013) Ltd.

On July 23, 2014, the Company completed an asset acquisition transaction through the purchase of all of the issued and outstanding shares of Atlas Cloud Enterprises (2013) Ltd, a private company incorporated under the laws of the Province of British Columbia on August 15, 2013. The value of the transaction was based upon the value of the shares issued by the Company. Atlas Cloud is a wholly-owned subsidiary of the Company. The Company has recognized \$743,673 as an intangible asset, which will be amortized on a straight-line basis over a period of three years.

Consideration:	\$750,000
5,000,000 common shares issued at \$0.15 per share	
Assets acquired:	
Net assets of Atlas Cloud Enterprises (2013) Ltd.	6,327
Intangible asset	743,673
	\$750,000

The Cranium

On December 4, 2014, the Company acquired the assets of The Cranium ("Cranium"), a private, unincorporated entity providing co-working office space for technology growth companies. The Company has recognized \$10,000 as an intangible asset, which will be amortized on a straight-line basis over a period of one year.

Consideration:	\$26,000
200,000 common shares issued at \$0.13 per share	
Assets acquired:	
Net assets of Cranium	16,000
Intangible asset	10,000
	\$26,000

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

5. INTANGIBLE ASSETS

	Atlas Cloud	The Cranium	Total
Cost			
As at May 31, 2014	\$ -	\$ -	\$ -
Additions	743,673	10,000	753,673
As at May 31, 2015	\$743,673	\$10,000	\$753,673
Additions	-	-	-
As at February 29, 2016	\$743,673	\$10,000	\$753,673
Amortization			
As at May 31, 2014	\$ -	\$ -	\$ -
Additions	202,018	5,000	207,018
As at May 31, 2015	202,018	5,000	207,018
Additions	179,082	5,000	184,082
As at February 29, 2016	381,100	10,000	391,100
Net Book Value, as at February 29, 2016	\$362,573	\$ -	\$362,573

During the year ended May 31, 2015, the Company recognized \$743,673 as an intangible asset upon the acquisition of Atlas Cloud Enterprises (2013) Ltd. (Note 4), which will be amortized on a straight-line basis over a period of three years representing the contract duration of the senior employee giving rise to the intellectual asset. Further, the Company capitalized \$10,000 as an intangible asset upon the acquisition of Cranium (Note 4), has been amortized on a straight-line basis over a period of one year which was the expected life of the office co-working space rental contracts acquired.

6. PROPERTY AND EQUIPMENT

	Furniture and Equipment	Data Centre Equipment	Leasehold Improvements	Total
Balance at May 31, 2014	\$ -	\$ -	\$ -	\$ -
Additions	13,665	429,496	95,091	538,252
Disposals	-	-	-	-
Balance at May 31, 2015	\$13,665	\$429,496	\$95,091	\$538,252
Additions	315	96,661	23,691	120,667
Disposals	-	-	-	-
Balance at February 29, 2016	\$13,980	\$526,157	\$118,782	\$658,919
Depreciation				
Balance at May 31, 2014 and 2013				
Additions	\$717	\$-	9,500	10,217
Disposals	-	-	-	-
Balance at May 31, 2015	\$717	\$ -	\$9,500	\$10,217
Additions	1,972	-	7,668	9,640

Disposals	-	-	-	-
Balance at February 29, 2016	\$2,689	\$ -	\$17,168	\$ \$19,856
Carrying amounts				
At May 31, 2014	\$ -	\$ -	\$=	\$ -
At May 31, 2015	\$12,948	\$429,496	\$85,592	\$ 528,036
At February 29, 2016	\$11,291	\$526,157	\$101,615	\$639,064

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

7. SHARE CAPITAL

Authorized share capital

Unlimited common shares, without par value

Share issuances

As at February 29, 2016: 16,908,833 (2015 – 16,575,500) shares were issued and outstanding, of which 3,000,000 (2014 - Nil) shares were held in escrow.

On October 30, 2015, the Company issued 333,333 common shares from its treasury to be issued to lenders as bonus shares upon the advance of short-term loans. The bonus shares, equivalent to 20% of the amount of the loans to be advanced, were issued at a price of \$0.12 per common share (see Note 12), for an aggregate value of \$40,000.

On July 23, 2014, the Company completed an asset acquisition transaction by acquiring all of the issued and outstanding shares of Atlas Cloud Enterprises (2013) Ltd., (Note 4) through the issuance of 5,000,000 of common shares valued at \$0.15 each, for an aggregate purchase price of \$750,000.

Concurrent with the above acquisition, the Company completed a private placement of 4,150,500 units at a price of \$0.15 per unit to raise gross proceeds of \$622,575. Each unit is comprised of one common share and one half of one share purchase warrant. Each full share purchase warrant entitles the holder to purchase an additional common share a price of \$0.25 for a period of 24 months. The Company paid finder's fees of \$40,735 cash and 387,950 warrants priced at \$0.25 per share exercisable for a period of 24 months. The share purchase warrants were valued at \$17,067 and credited to equity reserves. Fair value was determined using the Black-Scholes valuation model, based on a risk free interest rate of 1.12%, an expected life of two years, an expected volatility of 79.93% and a dividend yield rate of nil. All of the warrants are subject to an acceleration provision whereby if the Company's shares trade at \$0.40 or more for 10 consecutive trading days, the Company may reduce the exercise time to not less than 30 days.

On December 4, 2014, the Company acquired the assets of Cranium (Note 4) through the issuance of 200,000 of its common shares at \$0.13 each, and for an aggregate purchase price of \$26,000.

Share purchase warrants

The Company may issue share purchase warrants to acquire its common shares either in combination with share offerings, or on a stand-alone basis to its consultants and advisors. The terms of warrants issued are determined by the Company's Board of Directors.

Share purchase warrant transactions are summarized for the periods ended November 30, 2015 and May 31, 2015:

	Expiry Date	Exercise price	Balance, May 31, 2015	Issued/ Granted	Expired/ Cancelled	Balance, February 29, 2016
Warrants	July 4, 2016	\$0.25	2,075,250	\$-	\$-	2,075,250
Finders' warrants	July 4, 2016	\$0.25	387,950	-	-	387,950
			2,463,200	-	-	2,463,200
Weighted average exercise price			\$ 0.25	\$-	\$-	\$0.25

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

7. SHARE CAPITAL (cont'd...)

Stock options

The Company adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with CSE requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

The following options were outstanding as at february 29, 2016 and May 31, 2015:

	February 29, 2016		May 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	1,100,000	\$0.25	285,000	\$0.15
Granted	-	-	1,100,000	0.25
Exercised	-	-	-	-
Cancelled	-	-	(285,000)	0.15
Ending balance	1,100,000	\$0.25	1,100,000	\$0.25
Options exercisable	1,100,000	\$0.25	1,100,000	\$0.25

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
\$0.25	September 5, 2024	1,100,000	1,100,000	8.77 years

Share-based compensation

During the year ended May 31, 2015, the Company recorded share-based compensation totaling \$146,855 (2014 - \$Nil), with a corresponding increase in reserves-share based. There was \$nil share-based compensation recorded during the nine month period ended February 29, 2016.

The fair value of share options was estimated on the measurement date using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options. The assumptions used to calculate the fair value were as follows:

	February 29, 2016
Risk-free interest rate	2.11%
Expected life of options	10 years
Expected volatility	130.77%
Weighted average fair value per option	\$0.1335
Dividend yield	Nil

Escrowed shares

All of the 5,000,000 shares issued to acquire Atlas Cloud Enterprises (2013) Ltd. (Note 4) are subject to an escrow agreement pursuant to which 10% were released upon closing of the share exchange agreement, and an additional

15% will be released every six months thereafter over a period of 36 months. As at November 30, 2015, there were 3,000,000 shares remaining in escrow.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

8. RELATED PARTY TRANSACTIONS

During the period ended February 29, 2016 the Company paid or accrued \$36,000 (2014 - \$36,000) for office facilities and administrative services, \$nil (2015 - \$5,000) for consulting fees to a company, related by virtue of two officers in common and \$1,850 for professional fees to a Company related by one officer in common.

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

During the period ended February 29, 2016 the Company paid or accrued \$36,000 (2014 - \$36,000) for office facilities and administrative services provided by its Chief Executive Officer and \$1,850 for professional fees provided by a company related to the Chief Financial Officer. As at February 29, 2016 \$51,000 was owing to the Chief Executive Officer (May 31, 2015 – \$41,887).

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at February 29, 2016, the Company's financial instruments are comprised of cash, amounts receivable and accounts payable and accrued liabilities. The fair values of amounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs that are not based on observable market data (unobservable inputs).

As at February 29, 2016, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy.

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and amounts receivable. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper. Credit risk is not concentrated with any particular customer. The Company's accounts receivable consists partially of sales tax refundable from the government that is not subject to significant credit risk; however, at February 29, 2016, an amount of \$24,166 was receivable from its customers, which is subject to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company seeks to ensure there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. As at February 29, 2016, the Company had a cash balance of \$38,191 to settle current liabilities of \$339,100.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

i. Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, so its exposure to interest rate risk is insignificant.

ii. Foreign currency risk

Foreign currency risk arises from fluctuations in foreign currencies versus the Canadian dollar that could adversely affect reported balances and transactions denominated in those currencies. The Company currently has no assets or liabilities and has no revenue or expenses denominated in a foreign currency, so it is not exposed to foreign currency risk.

iii. Equity price risk

Equity price risk arises from market fluctuations in equity prices that could adversely affect the Company's operations. The Company's current exposure to equity price risk is limited to declines in the values and volumes including those of its own shares, which could impede its ability to raise additional funds when required.

10. CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the start-up and development of its primary business; the provision of co-location, back-up/redundancy IT telecom equipment, and Cloud computing, to small and medium businesses in Western Canada. 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 has been dependent upon external financings to fund activities. It has recently commenced generating revenue from the provision of co-location services; however, it presently has only one customer until the power upgrade for the facility currently underway is completed. Until such time as it can ramp-up its revenue generating activities, in order to carry out planned expenditures and pay for administrative costs the Company will spend its existing working capital and may seek to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to any externally imposed capital requirements.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)
For the nine months ended February 29, 2016

11. COMMITMENT

As at February 29, 2016, the Company was committed to the following:

- a) a three year management agreement with a director and officer of the Company to pay \$6,000 per month for management fees. In the event that the Company terminates the agreement without cause, the Company is obligated to pay severance equal to three months' pay, which increases by one months' pay for each additional year of service provided.
- b) a ten year operating lease for its 5,500 square foot office with an annual commitment of \$92,125. During the first six months of fiscal 2016, the Company paid aggregate lease costs of \$27,636, or \$4,606 per month, on 3,300 square feet of leased space occupied by Cranium. The lease payments for the remaining 2,200 square feet will commence upon completion of power upgrades by the landlord.

12. SHORT TERM LOANS PAYABLE

On October 26, 2015, the Company announced that it has arranged aggregate loans in the amount of CAD\$200,000. The loans are for a period of one year from the date of advance, and bear interest at 10% per annum. Three directors of the Company provided an aggregate 25% of the loan amount. Bonus shares payable to the lenders, equivalent to 20% of the aggregate loan amount, were issued at a price of \$0.12 per common share for a value of \$40,000, which was recorded as finance costs.

As at February 29, 2016, the Company had received short-term loan advances of \$200,000, accrued interest payable of \$5,365 and issued 333,333 bonus shares to lenders.

13. SEGMENTED INFORMATION

The Company has two reportable operating segments, being the co-location data centre and the co-working office space in Canada. The summarized financial information for revenue derived by segment is as follows:

		February 29, 2016	February 28 2015
Total revenues:			
Co-location data centre		\$22,462	\$ -
Co-working office space		92,530	15,696
		\$114,992	\$15,696

Management evaluates segment performance based on gross margin, intangible assets (Note 5) and property and equipment (Note 6). Other assets, liabilities, and general and administrative expenses cannot be allocated to individual segments.