

ATLASCLOUD

ATLAS CLOUD ENTERPRISES INC.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended May 31, 2016

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atlas Cloud Enterprises Inc.

We have audited the accompanying consolidated financial statements of Atlas Cloud Enterprises Inc., which comprise the consolidated statements of financial position as at May 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Atlas Cloud Enterprises Inc. as at May 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Atlas Cloud Enterprises Inc.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

September 27, 2016

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

	May 31, 2016	May 31, 2015
ASSETS		
Current		
Cash	\$34,614	\$13,515
Amounts receivable	18,885	38,588
Total current assets	53,499	52,103
Deposits	2,025	2,025
Intangible assets (Note 5)	293,764	546,655
Property and equipment (Note 6)	698,506	528,036
Total assets	\$1,047,794	\$1,128,819
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$220,018	\$80,674
Deferred revenue	27,277	-
Short term loan payable (Note 12)	200,000	-
Total liabilities	447,295	80,674
Shareholders' equity		
Share capital (Note 7)	1,938,801	1,899,281
Equity reserves (Note 7)	202,052	202,052
Deficit	(1,540,354)	(1,053,188)
Total shareholders' equity	600,499	1,048,145
Total liabilities and shareholders' equity	\$1,047,794	\$1,128,819

Basis of presentation and going concern (Note 2)

Commitments (Note 11)

Subsequent events (Note 15)

On behalf of the Board:

“Frederick W. Stearman” Director

“Martin A. Burian” Director

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

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

	Years ended	
	May 31, 2016	May 31, 2015
REVENUE		
Co-working space rental income	\$140,886	\$38,617
Co-location and cloud services	45,527	-
	<u>186,413</u>	<u>38,617</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	252,891	212,167
Consulting	-	5,000
Financing costs (Note 12)	40,000	-
Interest expense on note payable (Note 12)	12,860	-
Office facilities and administrative services (Note 8)	44,784	76,250
Office and sundry	54,251	20,318
Property operating expenses (Note 8)	147,418	45,154
Professional fees (Note 8)	102,002	99,411
Share-based compensation (Note 7)	-	146,855
Transfer agent, listing and filing fees	17,338	21,794
Travel and promotion	2,035	3,185
	<u>(673,579)</u>	<u>(630,134)</u>
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(\$487,166)	(\$591,517)
Basic and diluted loss per common share	(\$0.03)	(\$0.05)
Weighted average number of common shares outstanding	16,705,486	12,154,905

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

ATLAS CLOUD ENTERPRISES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(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	750,000	-	-	750,000
Shares issued on asset acquisition-Cranium	200,000	26,000	-	-	26,000
Share issue costs	-	(41,858)	-	-	(41,858)
Finders' warrants on private placement	-	(17,067)	17,067	-	-
Share-based compensation	-	-	146,855	-	146,855
Loss and comprehensive loss	-	-	-	(591,517)	(591,517)
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	-	-	-	(487,166)	(487,166)
Balance at May 31, 2016	16,908,833	\$1,938,801	\$202,052	(\$1,540,354)	\$600,499

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

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

	Years ended	
	May 31, 2016	May 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(\$487,166)	(\$591,517)
Non-operating item:		
Interest income	(70)	(243)
Items not involving cash:		
Amortization	252,891	212,167
Finance costs	40,000	-
Share-based compensation	-	146,855
Property operating expense	12,853	5,584
Changes in non-cash working capital items:		
Amounts receivable	19,703	(29,869)
Accounts payable and accrued liabilities	110,358	(19,613)
Deferred revenue	27,277	-
Net cash used in operating activities	<u>(24,154)</u>	<u>(276,636)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	70	243
Purchase of equipment	(139,337)	(471,737)
Cash acquired on an acquisition subsidiary	-	5,179
Net cash used in investing activities	<u>(139,267)</u>	<u>(466,315)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	-	622,575
Finders' fees on private placement	-	(40,735)
Proceeds from short term loan payable	185,000	-
Share issue costs	(480)	(1,123)
Advances from related party included in accounts payable and accrued liabilities	-	10,000
Net cash provided by financing activities	<u>184,520</u>	<u>590,717</u>
Increase (decrease) in cash for the year	21,099	(152,234)
Cash, beginning of year	13,515	165,749
Cash, end of year	\$34,614	\$13,515
Non-cash transactions:		
Shares for acquisition of subsidiary (Note 4)	-	\$750,000
Shares for acquisition of assets of Cranium (Note 4)	-	26,000
Finders warrants on equity financing (Note 7)	-	17,067
Acquisition of equipment included in accounts payable	43,780	-
Transfer of accounts payable to short-term loan	<u>(15,000)</u>	<u>-</u>

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

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
MAY 31, 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, back-up/redundancy IT, telecom equipment, and cloud computing, to small to 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 consolidated financial statements were approved by the Board of Directors on September 23, 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.

c) Going Concern

	May 31, 2016	May 31, 2015
Working capital (deficiency)	(\$393,796)	(28,571)
Deficit	(1,540,354)	(1,053,188)

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 and is beginning to derive revenues from its primary business, the provision of co-location and cloud 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 FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
MAY 31, 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 and short-term loan payable 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 FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
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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.

Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in a private placement is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the day prior to the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as share-based payments reserve.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
MAY 31, 2016

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

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.

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.

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

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:

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.

ATLAS CLOUD ENTERPRISES INC.
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MAY 31, 2016

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

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

(ii) Critical accounting judgements

a) Non-financial assets – impairment

The application of the Company's accounting policy for non-financial assets requires judgement 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).

c) Property and equipment – assessment of available for use and the start of depreciation

Depreciation of property and equipment begins when it is available for use, which is defined as occurring when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Judgment is required in determining whether the property and equipment is available for use at each reporting date.

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.

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.

Depreciation of equipment under construction is not recorded until such time as the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

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 for a specific period will be amortized on a straight line basis over a period of three years 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.

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.

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

Revenue recognition

Rental revenue from co-working space rental, co-location and from cloud services provided 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 Company has not implemented any changes to its accounting policies during the year ended May 31, 2016.

Accounting standards issued but not yet effective

Effective for annual periods beginning on or after January 1, 2016

IAS 16 & IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*

Amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption for intangible assets.

Effective for annual periods beginning on or after January 1, 2017

IAS 12, *Income Taxes*

Amendments to IAS 12 to clarify the recognition of a deferred asset for unrealized losses.

Effective for annual periods beginning on or after January 1, 2018

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 depreciation 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 15, *Revenue from Contracts with Customers*

IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC18, *Transfers of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions involving Advertising Service*.

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(Expressed in Canadian dollars)
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Effective for annual periods beginning on or after January 1, 2019

IFRS 16, Leases

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

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

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

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5. INTANGIBLE ASSETS

	Atlas Cloud	The Cranium	Total
Cost			
As at May 31, 2014 and 2013	\$ -	\$ -	\$ -
Additions	743,673	10,000	753,673
As at May 31, 2015 and 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	247,891	5,000	252,891
As at May 31, 2016	449,909	10,000	459,909
Net Book Value as at May 31, 2015	\$ 541,655	\$ 5,000	\$ 546,655
Net Book Value, as at May 31, 2016	\$ 293,764	\$ -	\$ 293,764

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), which will be amortized on a straight-line basis over a period of one year which is the expected life of the office co-working space rental contracts acquired.

As at May 31, 2016, The Cranium intangible asset has been fully amortized.

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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
Balance at May 31, 2015	\$13,665	\$429,496	\$95,091	\$538,252
Additions	314	153,669	29,340	183,323
Balance at May 31, 2016	\$13,979	\$583,165	\$124,431	\$721,575
Depreciation				
Balance at May 31, 2014	\$-	\$-	\$-	\$-
Additions	717	-	9,499	10,216
Balance at May 31, 2015	\$717	\$-	\$9,499	\$10,216
Additions	2,629	-	10,224	12,853
Balance at May 31, 2016	\$3,346	\$-	\$19,723	\$23,069
Carrying amounts				
At May 31, 2015	\$12,948	\$429,496	\$85,592	\$528,036
At May 31, 2016	\$10,633	\$583,165	\$104,708	\$698,506

Depreciation of the Company's Data Centre Equipment will commence once it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

7. SHARE CAPITAL

Authorized share capital

Unlimited common shares, without par value

Share issuances

As at May 31, 2016: 16,908,833 (2015 – 16,575,500) shares were issued and outstanding,
of which 2,250,000 (2015 - 3,750,000) shares were held in escrow.

On October 30, 2015, the Company issued 333,333 common shares at a value of \$40,000 to lenders as bonus shares upon the advance of short-term loans (Note 12).

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.

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

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 years ended May 31, 2015 and 2014:

	Expiry Date	Exercise price	Balance, May 31, 2014	Issued/ Granted	Expired/ Cancelled	Balance, May 31, 2015
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

Share purchase warrant transactions are summarized for the years ended May 31, 2016 and 2015:

	Expiry Date	Exercise price	Balance, May 31, 2015	Issued/ Granted	Expired/ Cancelled	Balance, May 31, 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	\$ -	\$ -	\$ 0.25

The warrants issued to investors were extended and expire on July 4, 2017. The finders' warrants were not extended.

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 Canadian Security Exchange (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.

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

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

	May 31, 2016		May 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	1,100,000	\$0.15	285,000	\$0.15
Granted	-	0.25	1,100,000	0.25
Exercised	-	-	-	-
Cancelled	-	0.15	(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	8.27 years

Share-based compensation

During the year ended May 31, 2016, the Company recorded share-based compensation totalling \$nil (2015 - \$146,855).

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:

	May 31, 2015
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 May 31, 2016, there were 2,250,000 shares remaining in escrow.

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8. RELATED PARTY TRANSACTIONS

During the year ended May 31, 2016 the Company paid or accrued \$nil (2015 - \$12,000) for office facilities and administrative services and \$nil (2015 - \$5,000) for consulting fees to a company, related by virtue of two officers in common.

On October 26, 2015, the Company arranged short term loans of which three directors provided an aggregate of \$50,000 of these short term loans (Note 12).

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 year ended May 31, 2016 the Company paid or accrued to the Chief Executive Officer \$72,000 (2015 - \$60,000) of which 50% was recorded in office facilities and administrative services and 50% in property operating expense. As at May 31, 2016, \$55,954 was owing to the Chief Executive Officer (2015 - \$41,887) included in accounts payable. Also, during the year, the Company paid or accrued \$24,937 (2015 - \$nil) recorded in professional fees, for services provided by a company related to the Chief Financial Officer. As at May 31, 2016, \$4,739 was owing to the Chief Financial Officer included in accounts payable. During the year ended May 31, 2015, the Company granted 950,000 stock options to key management valued at \$126,829. No stock options were granted during the year ended May 31, 2016.

During the year ended May 31, 2016, the Company recorded \$50,000 from three directors of the Company as a short-term loan payable (Note 12). The Company accrued interest to the related parties in accounts payable and accrued liabilities in relation to the short-term loan of \$2,855.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at May 31, 2016, the Company's financial instruments are comprised of cash, amounts receivable and accounts payable and accrued liabilities and short term loan payable. 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 May 31, 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 consist primarily of rent owing from co-location and co-working clients. A portion of accounts receivable is also made up of sales tax refundable from the government. In an effort to mitigate credit risk, management monitors its accounts receivable and it has been determined that no bad debts need to be recorded as all amounts are considered to be collectible.

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

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 May 31, 2016, the Company had a cash balance of \$34,614 to settle current liabilities of \$447,295. The Company is exposed to liquidity risk.

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's short term loan payable is subject to interest. Additionally, some of the Company's accounts payable and accrued liabilities are subject to interest on unpaid balances.

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 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; however, it expects to increase revenue during the upcoming fiscal year. 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.

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11. COMMITMENT

As at May 31, 2016, the Company is committed to the following:

A ten year operating lease for its 5,500 square foot office with an annual commitment of \$92,125. During fiscal 2015, the Company paid aggregate lease costs of \$55,272, 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 commenced in April when the power upgrade was completed by the landlord. The rent and operating costs were estimated at \$6,000 per month. Any differences will be adjusted when accurate measurement of the space is determined.

12. SHORT TERM LOANS PAYABLE

On October 26, 2015, the Company arranged short term loans in the amount of \$200,000. These loans are for a period of one year from the date of the advance and bear 10% interest per annum. Three directors of the Company provided an aggregate of \$50,000 of the total loan. Bonus shares payable to the lenders were issued at a fair value of \$ 0.12 per common share for a total value of \$40,000, which was recorded as finance costs.

13. SEGMENTED INFORMATION

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

	May 31, 2016	May 31, 2015
Total revenues:		
Co-location data centre	\$45,527	\$ nil
Co-working office space	140,886	38,617
	\$186,413	\$38,617

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

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14. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2016	2015
Loss and comprehensive loss for the year	(\$487,166)	(\$591,517)
Expected income tax (recovery)	(127,000)	(154,000)
Other	(1,000)	-
Permanent difference and other	65,000	39,000
Share issue cost	(11,000)	(11,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	45,000	6,000
Change in unrecognized deductible temporary differences	29,000	120,000
Total income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's unrecorded deferred tax assets and liabilities are as follows:

	2016	2015
Deferred tax assets		
Exploration and evaluation assets	\$3,000	\$3,000
Equipment	6,000	3,000
Canadian eligible capital	2,000	-
Share issue costs	15,000	10,000
Non-capital losses available for future periods	255,000	236,000
	281,000	252,000
Unrecognized deferred tax assets	(281,000)	(252,000)
	\$ -	\$ -

The significant components of the Company's temporary differences and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

	2016	Expiry date range
Temporary Differences		
Exploration and evaluation assets	\$11,000	No expiry date
Equipment	21,000	No expiry date
Canadian eligible capital	9,000	No expiry date
Share issue costs	57,000	2037 - 2040
Non-capital losses available for future periods	\$978,000	2029 - 2036

Tax attributes are subject to review, and potential adjustment, by tax authorities.

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15. SUBSEQUENT EVENTS

On June 30, 2016 the company closed the first tranche of a convertible debenture financing in the amount of \$1,002,000. A second tranche in the amount of \$ 21,000 was subsequently closed for a total amount raised equalling \$1,023,000. The debentures bear interest at a rate on 9% per annum, calculated and payable semi-annually in arrears. The convertible debentures are for a term of 36 months and are convertible at the discretion of the holder at the conversion price of \$ 0.25 per share. The option to convert includes the principal and any accrued interest earned at the time of conversion. The debentures will be secured by a first ranking charge on all of the Company's assets. The Company has paid finder's fees of 7% of the gross proceeds of the debenture issue and has issued finder's warrants in an amount equal to 7% of the amount raised, exercisable at \$0.15 per finder's warrant. Finder's Warrants issued as part of the first tranche are exercisable until June 29, 2018, and until July 22, 2018 for the second tranche.

The Company may at any time after six months following the date of issue, prepay the principal amount of the Debentures and any accrued or outstanding interest at any time upon giving at least 30 days advance notice. The Company will pay a redemption premium of 5% on the outstanding principal amount if redeemed within 18 months from the date of issue.