ATLASCLOUD

MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended May 31, 2016

This Management Discussion and Analysis ("MD&A") of Atlas Cloud Enterprises Inc. (the "Company") provides analysis of the Company's consolidated financial results for the year ended May 31, 2016 and should be read in conjunction with the accompanying audited consolidated financial statements and notes thereto for the year ended May 31, 2016, and the audited financial statements and notes thereto for the year ended May 31, 2015 which are available on SEDAR at www.sedar.com. The May 31, 2016 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars, unless otherwise stated. This MD&A is current as at September 27, 2016, the date of preparation.

Forward-Looking Statements

Certain statements made may constitute forward-looking statements. Such statements involve a number of known and unknown risks, uncertainties and other factors. Actual results, performance and achievements may be materially different from those expressed or implied by these forward-looking statements.

NATURE OF BUSINESS

The Company was incorporated under the *Business Corporations Act* (Alberta) on January 21, 2010.

On July 23, 2014, the Company completed an asset acquisition through the purchase of all of the issued and outstanding shares of Atlas Cloud Enterprises (2013) Ltd. ("Atlas"), a private British Columbia corporation, and the shareholders of Atlas. The Company's primary business is now the provision of co-location and back-up/redundancy IT and telecom equipment, and Cloud computing, to small and medium businesses in Western Canada.

The Company was previously listed on the Canadian Stock Exchange ("CSE") as a junior resource exploration company under the symbol "SYP". Upon completion of the transaction on July 23, 2014, the Company changed its name from Sypher Resources Ltd. ("Sypher") to Atlas Cloud Enterprises Inc. and its common shares are now traded under the symbol "AKE".

In December 2014, the Company acquired the assets of The Cranium ("Cranium"), an entity providing a co-working office for technology growth companies. In consideration of the acquisition of Cranium, the Company issued 200,000 common shares from its treasury at a price of $0.13 per common share.

At May 31, 2016, the Company had not yet achieved profitable operations, had incurred a loss and deficit of $1,540,354 and may incur more losses in the development of its business. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

Company Overview

The Company entered into a Share Exchange Agreement (the "SEA") on March 18, 2014 with Atlas Cloud Enterprises (2013) Ltd., a private British Columbia corporation, and the shareholders of Atlas, whereby the Company acquired 100% of the issued and outstanding shares of Atlas in exchange for 5,000,000 common shares (the "Payment Shares") of the Company (the "Transaction"). The Transaction and subsequent change of control represents a "fundamental change" for the Company under CSE Policy 8.

On July 23, 2014, the Company completed the Transaction, the value of which was based upon the value of the shares issued by the Company. Atlas is now a wholly-owned subsidiary of the Company. The Company has capitalized $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	$750,000
Assets acquired:	(6,327)
Intangible asset	$743,673

In conjunction with the closing of the Transaction, the Company completed a private placement, raising $622,575 through the sale of 4,150,500 common share units ("Units") at $0.15 per unit. Each Unit consists of one common share and one-half of one share purchase warrant (exercisable at $0.25 until July 4, 2016; provided that if the Company's shares trade at $0.40 or more for 10 consecutive trading days at any time following November 5, 2014, the Company may reduce the time to exercise the warrants to not less than 30 days). The Company paid finders' fee of $41,858 and issued 387,950 finder's warrants.

Upon completion of the Transaction, the Company changed its name to Atlas Cloud Enterprises Inc. and its common shares are traded under the symbol "AKE". The Company is involved in the development of technology. Its primary business is providing co-location and back-up/redundancy IT and telecom equipment, and Cloud computing, to small and medium businesses in Western Canada.

Caution Regarding Forward-Looking Information

This MD&A contains forward-looking statements and forward-looking information (collectively, "forward looking statements") within the meaning of applicable Canadian securities legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statement of historical fact are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. These forward looking statements include, but are not limited to, statements concerning:

- the Company's strategies and objectives, both generally and in respect of its existing business and planned business operations;
- the Company's plans to grow sales and offer new products;
- conditions in the financial markets generally, and with respect to the prospects for small capitalization commercial/technology companies specifically;
- the Company's future cash requirements; and
- the timing, pricing, completion, regulatory approval of proposed financings if applicable.

Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties beyond the Company's ability to predict or control, including, but not limited to, risks related to the Company's ability to raise the necessary capital or to be fully able to implement its business strategies, and other risks identified herein under "Risk Factors".

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations. In particular, the Company has moved from a private corporation operating with very limited capital and therefore with very restricted operations, to a publicly traded venture issuer. Accordingly, drawing trends from the Company's very limited operating history is difficult.

OVERALL PERFORMANCE

Co-location Services

The Company completed an asset acquisition on July 23, 2014 acquiring 100% of the shares of Atlas Cloud Enterprises (2013) Ltd. The Company, formerly a junior resource exploration company, is now in the business of providing co-location and back-up/redundancy IT and telecom equipment, and Cloud computing, to small and medium businesses in Western Canada.

There is a growing trend in the computing and information storage sectors towards cloud computing. Many businesses and non-profit organizations are moving away from the capital investment required to set up a network computer system and the on-going operating costs of maintaining a computer system, and are opting instead to use and pay only for the equipment and storage that they need, via the Internet, which is the essence of cloud computing. There is also a growing trend of businesses using off-site backup of their computer files, known as co-location. Co-location operates on the basis of having a second set of files or information stored on another computer at another location, which can be accessed if the business's primary computers fail. The Company plans to capitalize upon both of these trends by offering both cloud computing services and co-location services.

To ensure security of its services, it invested in upgraded power supply, backup power supplies through batteries and generators, reinforced premises in case of earthquakes, emergency plans in case of floods or other natural disasters, and high-speed fibre optic access.

The installation of the majority of the equipment to offer co-location services, including the first pod of 20 revenue generating racks, was completed by the end of August 2015. With the addition of its first client in September 2015, the Company is now generating co-location services revenue.

Co-working office business segment added

In early December 2014, the Company executed an agreement to acquire the assets of The Cranium ("Cranium"), an entity providing a co-working office for technology growth companies.

Cranium provides committed space to startup technology companies, providing desks, chairs, high-speed internet, meeting rooms, relevant workshops and other office infrastructure required by such companies to grow and compete in the technology sector. The Company is continuing to run and expand Cranium's clientele base.

RESULTS OF OPERATIONS

Selected Annual Information

Statement of Comprehensive Loss	Year Ended May 31, 2016	Year Ended May 31, 2015	Year Ended May 31, 2014
Co-working space rental income	$140,886	$38,617	$-
Co-location and cloud services	45,527	-	-
Property operating expenses	$147,418	$45,154	-
Net mineral property expenditures (recoveries)	-	-	$228
Net loss and comprehensive loss	$487,166	$591,517	$102,248
Net loss per common share outstanding - basic and diluted	$0.03	$0.05	$0.01
Weighted average number of common shares outstanding	16,705,486	12,154,905	7,225,000

Statement of Financial Position	May 31, 2016	May 31, 2015	May 31, 2014
Total Assets	$1,047,794	$1,128,819	$170,448
Current Liabilities	$447,295	$80,674	$34,358
Shareholders' Equity	$600,499	$1,048,145	$136,090

The annual information is not comparable, because the company was a mining exploration company until July 23, 2014 when the company purchased an operating co-location business. Subsequently in late 2014, the Company purchased the Cranium, a co-working company. The only income was co-working income for the year ended May 31, 2015.

Summary of Quarterly Results

Selected financial information for each of the eight most recently completed quarters are as follows.

Operations	General Expense	Revenue	Property Operating Expenses	Amortization	Net Loss	Basic and Diluted Loss Per Share
Q4 - 31/05/2016	$47,768	$71,421	$78,071	$73,204	$127,622	$0.01
Q3 - 29/02/2016	$141,766	$46,571	$19,298	$63,054	$114,520	$0.01
Q2 - 30/11/2015	$163,829	$41,676	$18,786	$64,877	$140,939	$0.01
Q1 - 31/08/2015	$112,257	$26,745	$18,410	$64,609	$104,127	$0.01
Q4 - 31/05/2015	$54,618	$22,921	$23,740	$40,843	$76,851	$0.01
Q3 - 29/02/2015	$135,662	$15,696	$21,414	$78,514	$119,966	$0.01
Q2 - 30/11/2014	$281,751	-	-	$92,331	$281,751	$0.02
Q1 - 31/08/2014	$112,948	-	-	479	$112,949	$0.01

Note: the periods prior to the closing date of the Transaction on July 23, 2014 are not comparable, as the Company acquired its current business effective as of the Transaction date. They are not included here.

Three Months Ended May 31, 2016

The Company recorded revenues of $71,421 (2015 - $22,921), with $23,065 attributable to co-location services and $48,356 from co-working space rentals. Co-location services revenues commenced in September with the addition of the Company's first client.

The Company recorded a net loss of $127,622 for the three month period ended May 31, 2016, as compared to a net loss of $76,851 for the same period in the prior fiscal year. The net loss for the current period reflects an overall increase in marketing and business activities to increase revenue. It is comprised in large part by the amortization of intangible assets, equipment and leasehold improvements totaling $73,204 (2015 - $40,843).

Property operating expenses were $90,924 (2015 - $45,154). The major reasons for this increase was an increase in management costs due to increased activity and changes being made to accommodate more customers in the co-working area. Office facilities and administrative services decreased by $15,670 (2015 - increased by $3,250) The reason for this decrease was a reallocation of costs to the property operating expenses due to the increased activity in the co-working area.. Office and sundry costs decreased to $ 8,703 (2015 - showed a recovery of $5,726). The prior year's recovery was due to a reallocation of costs. Professional fees incurred during the period totaled $39,497 (2015 - $39,282) and was comprised of legal fees, audit fees and accruals for the current year end audits and accounting services.

Transfer agent, listing and filing fees were $ 6,825 (2015 - $2,356) during the period.

Year ended May 31, 2016

The Company recorded revenues of $186,413 (2015 - $38,617), with $45,527 attributable to co-location services and $140,886 from co-working space rentals.

The Company recorded a net loss of $487,166 for the year ended May 31, 2016, as compared to a net loss of $591,517 for the prior fiscal year. The net loss for the current period reflects an overall increase in business activities and is comprised in large part by the amortization of intangible assets, equipment and leasehold improvements totaling $264,561 (2015 - $212,167).

Property operating expenses of $147,418 (2015 - $45,154) were recorded. Management and other costs were reallocated to the co-working area because of the major increase in business in the co-working area. The office facilities and administrative services decreased by $31,466 (2015 - increased by $28,250) to $44,784. Office and sundry costs rose to $54,251, as compared to costs of $20,318 incurred in the prior fiscal year. These costs increased because of the increase in business activity in both the co-location and the co-working businesses.

Professional fees incurred during the year totaled $102,002 (2015 - $99,411).

Transfer agent, listing and filing fees of $17,338 (2015 - $21,794) were lower than those incurred during the same period in the prior fiscal year, which included activities pertaining to the completion of the Transaction.

During the period, the Company received short-term loan advances of $200,000, and in respect of the loans accrued interest payable of $ 10,000 and issued 333,333 bonus shares valued at $40,000 to lenders.

LIQUIDITY AND CAPITAL RESOURCES

At May 31, 2016, the Company's working capital deficit was $393,796 (2015 $28,571). Cash held as at May 31, 2016 was $34,614, compared with $13,515 at May 31, 2015.

During the year ended May 31, 2016, the Company experienced cash outflows of $24,154 (2015 – outflows of $276,636) from operating activities. Investing activities used cash of $139,337 (2015 – $466,315), including $139,337 (2015 - $471,737) paid for equipment. Financing activities provided cash of $184,520 (2015 –$590,717). Overall, cash increased by $21,099, as compared to a decrease of $152,234 during the prior fiscal year.

On October 26, 2015, the Company announced that it had arranged short term 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 of $50,000 of the total loan amount. Bonus shares payable to the lenders were issued at a fair value of $0.12 per common share for a value of $40,000, which was recorded as finance costs.

Proceeds from the bridge loan were used to complete the power upgrade, to continue the installation of redundant power required of a facility operating at a "Tier 2 data centre" level and for general working capital purposes. With the upgraded power and a fully completed data centre, Management believes it will be able to generate greater co-location revenues, building towards positive operating cash flow.

At May 31, 2016, the Company has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants. The Company's continued operations are dependent on its ability to generate future cash flows or obtain additional financing. Presently, the Company does not have sufficient working capital to meet its anticipated ongoing financial obligations and administrative costs.

In September 2015, the Company began to generate revenue from its first pod of racks. Management expects to add further customers in the coming months, particularly once the required power upgrade is complete and redundant back-up power is available. During the fiscal 2016 year ended May 31, 2016, the Company recorded co-location services income of $45,527.

Co-working space rental income was $140,886 from its Cranium operations. Management is highly encouraged by the growth of the Cranium in recent months, and will continue to build out this secondary revenue stream.

RISKS AND UNCERTAINTIES

Subsequent to July 23, 2014, the date of completion of the Transaction with Atlas, the Company's principal activity is the provision of data hosting services. Atlas is a start-up company and, in addition to facing all of the competitive risks in the data hosting sector, will face all the risks inherent in starting up a business and offering a service for the first time including: access to capital, ability to attract and retain qualified employees, ability to attract initial and ongoing customers and the ability to put in place appropriate operating and control procedures.

Industry specific risks include, but are not limited to:

- *Competitive risk* – larger competitors such as Telus and Bell are market leaders in the data hosting space. A number of smaller local organizations also compete with the small independent providers such as Atlas Cloud. Additionally, unforeseen competition could have a significant adverse effect on the growth potential of the Company;
- *Technology risk* – the Company has just completed the build-out of a modern data centre based on mainstream power and cooling technologies. The mechanical components have an estimated lifespan of 10 years; however, technological changes and hardware innovations may result in a paradigm shift away from this more traditional business model of refrigerated cooling and lead acid batteries connected to a diesel back-up generator. This could result in a change in the Company's business model, requiring reinvestment in new technology earlier than anticipated.
- *Environment risk:* earthquakes, flooding, ice storms, gas leaks and other natural and man-made disasters are all factors that may impede the Company's business. While these factors have all been considered in the Company's planning process, they may still have adverse material consequences to the Company and its business.
- *Start-up business risk*: the Company is a relatively new company having only operated since August 15, 2013, since which time it has been in the development stage. The Company is still rolling out its business and recruiting initial clients and it is therefore uncertain whether the Company can get to the stage of being a stable operating business with its existing financial resources. The Company is subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objectives.
- *Cloud Computing risks:* this includes
  - (i) business continuance - as the Company's business is dependent on internet access, the loss of internet connectivity would have serious adverse effects.
  - (ii) data security - risk of data breach, the interception and capture of data, is mitigated by the Company's use of redundant firewalls, gateway antivirus and third party security providers; however, there is no guarantee against security breaches from unknown or internal causes. Failure to properly address such security breaches could adversely affect the Company's business.
  - (iii) regulatory complications – the Cloud industry is self-regulating, but certain customers must adhere to privacy laws, Patriot Act and acceptable internet use policy. Future privacy and security legislation, or change to existing regulation, may potentially impact the Company financially and operationally.

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. Consulting fees of $Nil (2015 - $5,000) were paid to a company related by virtue of two officers in common. These consulting fees were paid by the predecessor company before the Transaction.

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 Directors members.

During the year ended May 31, 2016 the Company paid or accrued Fred Stearman, 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 expenses. As at May 31, 2016 $55,954 was owing to Fred Stearman, 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 as professional fees, for services provided by a company related to Laurie Sadler, the Chief Financial Officer. As at May 31, 2016, an amount of $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.

CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity. It 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 and back-up/redundancy IT and 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.

On October 26, the Company announced that it had arranged a short-term loan in the amount of $200,000. As at May 31, 2016, the Company had received short-term loan advances of $200,000 and accrued interest payable of $12,860. A total of 333,333 bonus shares valued $40,000 were issued to the lenders. Further financing, in the form of debt or equity or a combination thereof, may be required.

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's capital management objectives, policies and processes have not been changed during the most recently completed fiscal year.

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at May 31, 2016, the Company's financial instruments are comprised of cash, amounts receivable, accounts payable, accrued liabilities and short-term loans payable. The fair value of amounts receivable, accounts payable and accrued liabilities and short-term loans payable approximate their carrying value 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 of 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.

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 ensures 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. These sources are currently insufficient to cover the short-term cash requirements and, as a result further funding may be required to meet both short-term and long-term needs. However, after several months of significant cash outflows related to construction of its co-location hosting facilities, the Company has now commenced generating revenue. With the exception of the short-term loans which have a term of one year and bear interest at 10% per annum, all of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

As at May 31, 2016, the Company had a cash balance of $34,614 to settle current liabilities of $447,295.

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 commodity 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 fluctuation 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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of May 31, 2016 and as at the date of this MD&A.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates on the resulting effects of the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

All of the Company's significant accounting policies and estimates are included in Note 3 of its audited consolidated financial statements for the year ended May 31, 2016.

FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

Accounting standards not yet effective

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

IADS 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 derecognition 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,* IFRIC 18, *Transfers of Fixed Assets from Customers,* and SIC-31, *Revenue - Barter Transactions involving Advertising Service.*

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 accounting model.

OUTSTANDING SHARE DATA AS AT SEPTEMBER 31, 2016:

(a) Authorized and issued share capital:

Class	Par Value	Authorized	Issued Number
Common	No par value	Unlimited	16,908,833

(b) Summary of options outstanding:

Security	Number	Number Exercisable	Exercise Price	Expiry Date
Options	1,100,000	1,100,000	$0.25	September 5, 2024

(c) Summary of warrants outstanding:

Security	Number	Excerise Price	Expiry Date
Warrants	2,075,250	$0.25	July 4, 2016
Finders Warrants	387,950	$0.25	July 4, 2016
	2,463,200		

(d) Summary of escrowed shares: 2,250,000 common shares

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design and operating effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the period covered by this MD&A, management believes its internal controls and procedures are appropriately designed and were operating effectively as at May 31, 2016.

DISCLOSURE CONTROLS

Management is also responsible for the design and operation of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design and effectiveness of the Company's disclosure controls and procedures as of May 31, 2016 and have concluded that these controls and procedures are effective.

OTHER INFORMATION

For additional disclosures concerning the Company's general and administrative expenses, please refer to the unaudited consolidated financial statements for the year ended May 31, 2016, which are available on SEDAR at www.sedar.com.

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 of 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 a 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. Finder's warrants issued as part of the first tranche are excersisable at $0.15 per finder's warrant 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.

The share purchase warrants that were scheduled to expire on July 4, 2016 were extended until July 4, 2017. The finder's warrants that were scheduled to expire on July 4, 2016 were not extended and thus expired.