



ATLAS CLOUD ENTERPRISES INC.

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three and six month periods ended November 30, 2016

(Expressed in Canadian dollars)

(UNAUDITED)

**NOTICE OF NO AUDITORS' REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim consolidated financial statements of Atlas Cloud Enterprises Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada ("CPA Canada") for a review of interim financial statements by an entity's auditor.

ATLAS CLOUD ENTERPRISES INC.

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

	NOVEMBER 30, 2016	MAY 31, 2016
Assets		
Current		
Cash	\$ 452,272	\$ 34,614
Amounts receivable	30,200	18,885
Prepaid expenses and deposits	2,405	2,025
Total Current Assets	484,877	55,524
Intangible assets (Note 4)	169,819	293,764
Property and equipment (Note 5)	718,716	698,506
Total Assets	\$ 1,373,412	\$ 1,047,794
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 102,191	\$ 220,018
Deferred revenue	13,069	27,277
Short term loans payable (Note 10)	-	200,000
Total Current Liabilities	115,260	447,295
Convertible debentures payable (Note 6)	1,023,000	-
Total Liabilities	1,138,260	447,295
Shareholders' Equity		
Share capital (Note 7)	1,918,968	1,938,801
Equity reserves	221,885	202,052
Deficit	(1,905,701)	(1,540,354)
Total Shareholders' Equity	235,152	600,499
Total Liabilities and Shareholders' Equity	\$ 1,373,412	\$ 1,047,794

Basis of presentation and going concern (Note 2)
Commitment (Note 9)

Approved on behalf of the Board of Directors:

"Frederick W. Stearman"

Director

"Martin A. Burian"

Director

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

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

	Three Month Period Ended November 30, 2016	Three Month Period Ended November 30, 2015	Six Month Period Ended November 30, 2016	Six Month Period Ended November 30, 2015
Revenue				
Co-working space rental income	\$ 36,300	\$ 29,919	\$ 72,575	\$ 56,664
Co-location and cloud services	37,807	11,757	77,514	11,757
Total Revenue	74,107	41,676	150,089	68,421
General and Administrative Expenses				
Amortization	\$ 83,727	\$ 64,877	\$ 169,910	\$ 129,486
Financing costs (Notes 8 and 10)	-	40,000	60,270	40,000
Interest expense (Notes 8 and 10)	22,860	1,365	41,213	1,365
Office facilities and administrative services (Note 8)	48,295	21,390	87,685	39,390
Office and sundry	7,398	17,006	9,099	34,551
Property operating expenses (Note 8)	28,297	18,786	74,754	37,196
Professional fees (Note 8)	23,706	13,705	56,876	23,223
Transfer agent, listing and filing fees	5,971	5,106	12,107	7,769
Travel and promotion	2,794	380	3,522	507
Total Expenses	(223,048)	(182,615)	(515,436)	(313,487)
Net Loss and Comprehensive Loss For The Period	\$ (148,941)	\$ (140,939)	\$ (365,347)	\$ (245,066)
Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted Average Number Of Shares Outstanding	16,908,833	16,689,053	16,908,833	16,603,810

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

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

Six Month Periods ended November 30, 2016, 2015 and Year Ended May 31, 2016

	SHARE CAPITAL		EQUITY	DEFICIT	TOTAL
	NUMBER	AMOUNT	RESERVE		
Balance, May 31, 2015	16,575,500	1,899,281	202,052	(1,053,188)	1,048,145
Share issued for loan advances	333,333	40,000	-	-	40,000
Share issue costs	-	(480)	-	-	(480)
Net loss for the period	-	-	-	(245,066)	(245,066)
Balance, November 30, 2015	16,908,833	1,938,801	202,052	(1,298,254)	842,599
Net loss for the period	-	-	-	(242,100)	(242,100)
Balance, May 31, 2016	16,908,833	1,938,801	202,052	(1,540,354)	600,499
Finders' warrants on debenture financing	-	(36,900)	36,900	-	-
Expiry of finders' warrants on private placement	-	17,067	(17,067)	-	-
Net loss for the period	-	-	-	(365,347)	(365,347)
Balance, November 30, 2016	16,908,833	\$ 1,918,968	\$ 221,885	\$ (1,905,701)	\$ 235,152

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

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

	SIX MONTH PERIOD ENDED	
	NOVEMBER 30,	
	2016	2015
Operating Activities		
Net loss for the period	\$ (365,347)	\$ (245,066)
Adjustments for non-cash expenses and income		
Amortization	169,910	129,486
Finance costs	60,270	40,000
Property operating expense	-	1,182
Changes in non-cash operating assets and liabilities		
Amounts receivable	(11,315)	21,993
Prepaid expenses and deposits	(380)	-
Accounts payable and accrued liabilities	(117,827)	33,022
Deferred revenue	(14,208)	
Cash Used In Operating Activities	(278,897)	(19,383)
Investing Activities		
Purchase of equipment	(66,175)	(111,830)
Cash Used In Investing Activities	(66,175)	(111,830)
Financing Activities		
Share issue costs	-	(480)
Advances from short-term loans	(200,000)	185,000
Proceeds of debenture financing	962,730	
Cash Provided By Financing Activities	762,730	184,520
Change In Cash	417,658	53,307
Cash, Beginning Of Period	34,614	13,515
Cash, End Of Period	\$ 452,272	\$ 66,822
Supplementary Information		
Cash paid for interest	\$ 3,008	\$ -
Cash paid for income taxes	\$ -	\$ -

Non-cash Investing and Financing Transactions (Note 11)

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

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
NOVEMBER 30, 2016
(UNAUDITED)

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 3).

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

These condensed interim consolidated financial statements were approved by the Board of Directors on January 25, 2017. These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB (“International Accounting Standards Board”) applicable to the preparation of condensed interim consolidated financial statements, including International Accounting Standard (“IAS”) 34 - Interim Financial Reporting. The accounting policies followed in these condensed interim consolidated financial statements are materially the same as those applied in the Company’s audited annual financial statements for the year ended May 31, 2016.

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.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of January 25, 2017, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the condensed interim consolidated financial statements for the six month period ended November 30, 2016. The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company’s annual financial statements and the notes thereto for the year ended May 31, 2016.

The preparation of condensed interim financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the condensed interim financial statements and the reported amounts of revenues and expenses during the reporting period. The condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include but are not limited to exploration and evaluation assets, oil and gas interests, share-based payments, allocation of financing proceeds, and income and mining taxes. Differences may be material.

	November 30, 2016	May 31, 2016
Working capital (deficiency)	\$ 369,617	\$ (391,771)
Deficit	\$ (1,905,701)	\$ (1,540,354)

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
NOVEMBER 30, 2016
(UNAUDITED)

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

These condensed interim 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 3), 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.

3. 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>

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
NOVEMBER 30, 2016
(UNAUDITED)

4. INTANGIBLE ASSETS

	Atlas Cloud	The Cranium	Total
Cost			
As at May 31, 2015	\$ 743,673	\$ 10,000	\$ 753,673
Additions	-	-	-
As May 31, 2016 and November 30, 2016	743,673	10,000	753,673
Amortization			
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
Additions	123,945	-	123,945
As at November 30, 2016	573,854	10,000	583,854
Net Book Value as at May 31, 2016	293,764	-	293,764
Net Book Value as at November 30, 2016	\$ 169,819	\$ -	\$ 169,819

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 3), 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, which has been 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 November 30, 2016, The Cranium intangible asset has been fully amortized.

PROPERTY AND EQUIPMENT

	Furniture and Equipment	Data Centre Equipment	Leasehold Improvements	Total
Cost				
As at May 31, 2015	\$ 13,665	\$ 429,496	\$ 95,091	\$ 538,252
Additions	314	153,669	29,340	183,323
As May 31, 2016	13,979	583,165	124,431	721,575
Additions	-	65,425	750	66,175
As at November 30, 2016	13,979	648,590	125,181	787,750
Amortization				
As at May 31, 2015	717	-	9,499	10,216
Additions	2,629	-	10,224	12,853
As at May 31, 2016	3,346	-	19,723	23,069
Additions	1,064	38,493	6,408	45,965
As at November 30, 2016	4,410	38,493	26,131	69,034
Net Book Value as at May 31, 2016	10,633	583,165	104,708	698,506
Net Book Value as at November 30, 2016	\$ 9,569	\$ 610,097	\$ 99,050	\$ 718,716

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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NOVEMBER 30, 2016
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6. CONVERTIBLE DEBENTURES PAYABLE

On June 29, 2016, the Company closed the first tranche of a convertible debenture financing in the amount of \$1,002,000. A second tranche of \$21,000 closed on July 22, 2016 for a total amount of financing raised of \$1,023,000. The convertible 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 unpaid accrued interest at the time of conversion. The debentures are secured by a first ranking charge on all the Company's assets. The Company paid a finders' fee of 7% of the gross proceeds and issued finders' warrants in the amount equal to 7% of the amount raised, exercisable at \$0.15 per finder's warrant for a period of 24 months from the date of closing. The Company used the Black Scholes pricing model to estimate the fair value of the finders' warrants of \$36,900 using a dividend yield of \$nil, annualized volatility of 119-122%, a risk free interest rate of 0.54-0.58% and an expected life of 2 years.

The Company may at any time after six months following the date of issue, repay the principal amount of the Convertible Debentures and any accrued 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 if redeemed within 18 months from the date of closing.

Interest in the amount of \$38,205 has been accrued for the six month period ended November 30, 2016. Subsequent to November 30, 2016, interest in the amount of \$46,305 has been paid to the convertible debenture holders.

7. SHARE CAPITAL

Authorized share capital

Unlimited common shares, without par value

Share issuances

As at November 30, 2016: 16,908,833 (May 31, 2016 – 16,908,833) shares were issued and outstanding, of which 1,500,000 (May 31, 2016 – 2,250,000) shares were held in escrow.

During the year ended May 31, 2016, 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 10).

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.

The continuity of warrants for the year ended May 31, 2016 and six month period ended November 30, 2016 is summarized below:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, May 31, 2015	2,463,200	\$0.25
Exercised/Issued/Expired	-	-
Balance, May 31, 2016	2,463,200	\$0.25
Expired	(387,950)	0.25
Issued	401,800	0.15
Balance, November 30, 2016	2,477,050	\$0.23

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
NOVEMBER 30, 2016
(UNAUDITED)

7. SHARE CAPITAL (cont'd)

Share purchase warrants (cont'd)

The following table summarizes the warrants outstanding and exercisable at October 31, 2016:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
2,075,250	\$0.25	July 4, 2017
392,000	\$0.15	June 29, 2018
9,800	\$0.15	July 22, 2018
2,477,050		

As at November 30, 2016, the weighted average remaining contractual life of all warrants outstanding was 0.75 years (May 31, 2016 – 0.09 years). The 2,075,250 warrants issued to investors were extended and expire on July 4, 2017. The 387,950 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.

The continuity of options for the year ended May 31, 2016 and six month period ended November 30, 2016 is summarized below:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, May 31, 2015	1,100,000	\$0.25
Granted/Issued/Expired	-	-
Balance, May 31, 2016	1,100,000	\$0.25
Granted/Issued/Expired	-	-
Balance, November 30, 2016	1,100,000	\$0.25

As at November 30, 2016, there are 1,100,000 options outstanding and exercisable at \$0.25 until September 5, 2024 with a weighted average remaining contractual life of 7.77 years (May 31, 2016 – 8.27 years).

Escrowed shares

All of the 5,000,000 shares issued to acquire Atlas Cloud Enterprises (2013) Ltd. (Note 3) are subject to an escrow agreement pursuant to which 10% were released upon closing of the share exchange agreement, and an additional 15% will be released every six months thereafter over a period of 36 months. As at November 30, 2016, there were 1,500,000 (May 31, 2016 – 2,250,000) shares remaining in escrow.

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
NOVEMBER 30, 2016
(UNAUDITED)

8. RELATED PARTY TRANSACTIONS

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 six month period ended November 30, 2016 the Company paid or accrued to the Chief Executive Officer \$36,000 (November 30, 2015 - \$36,000) of which 50% was recorded in office facilities and administrative services and 50% in property operating expense. As at November 30, 2016, \$526 was owing to the Chief Executive Officer (May 31, 2016 - \$55,954) included in accounts payable and accrued liabilities. Also, during the six month period, the Company paid or accrued \$32,784 (November 30, 2015 - \$Nil) recorded in professional fees, for services provided by a company related to the Chief Financial Officer. As at November 30, 2016, \$2,500 (May 31, 2016 - \$4,739) was accrued to the Chief Financial Officer included in accounts payable and accrued liabilities.

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 10). The Company accrued interest to the related parties in accounts payable and accrued liabilities in relation to the short-term loan of \$2,855. During the six month period ended November 30, 2016, these loans and accrued interest of \$3,008 were repaid.

During the six month period ended November 30, 2016, a director of the Company purchased \$20,000 convertible debenture (Note 6). As at November 30, 2016, \$750 has been accrued on this debenture.

9. COMMITMENT

As at November 30, 2016, the Company is committed to a ten year operating lease for its 5,500 square foot office with an annual commitment of \$123,840 until November 2024.

10. SHORT TERM LOANS PAYABLE

On October 26, 2015, the Company arranged short term loans in the amount of \$200,000. These loans were 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. These loans were repaid in June 2016.

11. NON-CASH INVESTING AND FINANCING TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

Six Month Period ended November 30, 2016:

- \$17,067 was transferred from share based payment reserves to share capital as a result of the expiry of 387,950 finders' warrants.
- issued 401,800 finders' warrants with a fair value of \$36,900 for \$1,023,000 convertible debenture financing.

Six Month Period ended November 30, 2015:

- issued 333,333 common shares with a fair value of \$40,000 for advances of short-term loans of \$200,000.