# ATLAS CLOUD ENTERPRISES INC.

## MANAGEMENT DISCUSSION AND ANALYSIS

## For The Three and Six Month Periods Ended November 30, 2016

***This Management Discussion and Analysis for Atlas Cloud Enterprises Inc. (the "Company") provides analysis of the Company's financial results for the three and six month periods ended November 30, 2016. The following information should be read in conjunction with the accompanying condensed interim consolidated financial statements and related notes for the three and six month periods ended November 30, 2016.***

## 1.1 <u>Date of Report</u>

The following Management Discussion and Analysis ("MD&A") focuses on significant factors that have affected Atlas Cloud Enterprises Inc. (the "Company" or "Atlas Cloud") performance and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company's condensed interim consolidated financial statements and related notes for the three and six month periods ended November 30, 2016 and the Company's annual audited consolidated financial statements and the notes thereto for the year ended May 31, 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Unless otherwise noted, all currency amounts are in Canadian dollars. This MD&A is dated January 25, 2017.

### 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 and Uncertainties".

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.

### Management's Responsibility for Financial Statements

The information provided in this MD&A, including the condensed interim consolidated financial statements, are the responsibility of management. In the preparation of these condensed interim consolidated financial statements, estimates are sometimes necessary to make a determination of the future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying condensed interim consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

## 1.2 Overall Performance

### Nature of Business and Overall Performance

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

The Company entered into a Share Exchange Agreement on March 18, 2014 which completed July 23, 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 of the Company.

The Company's primary business is 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".

As at November 30, 2016, the Company had not yet achieved profitable operations, had incurred a loss and deficit of $1,905,701 and may incur more losses in the development of its business operations. The continued operations of the Company are dependent on its ability to generate future cash flows and/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.

### Co-location Services

The Company is 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 in August, 2015 and is now generating co-location services revenue.

### Co-working office business segment

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.

The Company's head office is located at 308 East 5th Avenue, Vancouver, B.C. V5T 1H4 and its registered and records office is care of Owen Bird Law Corporation, Suite 2900 – 595 Burrard Street, Vancouver, BC V7X-1J5.

2017 Second Quarter Summary:

- For the three month period ended November 30, 2016, the Company recorded a net loss and comprehensive loss of $148,941 or $0.01 loss per share as compared to a net loss and comprehensive loss of $140,939 or $0.01 loss per share for the three month period ended November 30, 2015.

- As at November 30, 2016, the Company had total assets of $1,373,412 (May 31, 2016 - $1,047,794) and working capital of $369,617 (May 31, 2016 – working capital deficiency of $391,771).

The Company's primary business is providing co-location, back-up/redundancy IT, telecom equipment and cloud computing to small and medium size businesses in Western Canada. The Company continues to provide rack space and internet connectivity (co-location services) to its initial group of clients. We anticipate bringing on additional co-location clients as our ability to offer redundant back-up power as part of our service is brought on-stream.

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 its inception. Subsequent to the Cranium assets acquisition (Note 4 of the May 31, 2016 audited financial statements), it currently derives revenues from its co-working space business segment and 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.

## 1.3 Selected Annual Information

N/A

## 1.4 <u>Results of Operations</u>

During the three month period ended November 30, 2016, the Company recorded revenues of $74,107 (2015 - $41,676), of which $36,300 (2015 - $29,919) attributable from co-working space rentals and $37,807 (2015 - $11,757) from co-location and cloud services.

During the three month period ended November 30, 2016, the Company recorded a net loss and comprehensive loss of $148,941 or $0.01 per share, as compared to a net loss and comprehensive loss of $140,939 or $0.01 per share for the three month period ended November 30, 2015. Revenues increased from $41,676 for the three month period ended November 30, 2015 to $74,107 during the current three month period, an increase of $32,431. This increase is mainly due to an increase in co-location and cloud services revenue of $26,050 during the current three month period as compared to the prior period. Total expenses for the three month period ended November 30, 2016 were $223,048 as compared to $182,615 for the three month period ended November 30, 2015. Significant changes in general and administrative expenses for the three month period ended November 30, 2016 include the following:

a) Amortization of intangible assets, equipment and leasehold improvements totaling $83,727 (2015 - $64,877). The Company has commenced amortization of its Data Centre Equipment in the amount of $38,493 which were not used to generate co-location and cloud services revenues until after the year ended May 31, 2016. This is a non-cash expense.
b) Financing costs of $nil was recorded during the three month period ended November 30, 2016 as compared to $40,000 in bonus shares issued for the arrangement of $200,000 in short-term loans during the three month period ended November 30, 2015.
c) Interest expense in the amount of $22,860 was accrued on the $1,023,000 convertible debenture during the three month period ended November 30, 2016 as compared to $1,365 accrued interest on short term loans of $185,000 during the three month period ended November 30, 2015.
d) Office facilities and administrative services increased from $21,390 during the three month period ended November 30, 2015 to $48,295 during the same period in 2016, an increase of $26,905. The major reason for this increase was an increase in administrative costs due to increased activity and changes being made to generate and accommodate more customers in the co-working space and co-location and cloud services operations.
e) Property operating expenses increased from $18,786 for the three month period ended November 30, 2015 to $28,297 for the three month period ended November 30, 2016, an increase of $9,511. The reason for this increase was an increase of activity in the co-location and cloud services. The revenues generated from this segment is increasing toward a break-even level of activity.
f) Office and sundry costs decreased from $17,006 for the three month period ended November 30, 2015 to $7,398 for the three month period ended November 30, 2016, a decrease of $9,608. These costs reflect insurance, telephone and office supplies incurred during the period.
g) Professional fees incurred during the period totaled $23,706 (2015 - $13,705), an increase of $10,001. This increase was mainly due to the professional services required for the closing of the convertible debenture financing and the requirement of quarterly financial reporting.

The net loss for the current period reflects an overall increase in marketing and business activities required in order to increase revenue.

During the six month period ended November 30, 2016, the Company recorded a net loss and comprehensive loss of $365,347 or $0.02 per share, as compared to a net loss and comprehensive loss of $245,066 or $0.01 per share for the six month period ended November 30, 2015. Revenues increased from $68,421 for the six month period ended November 30, 2015 to $150,089 during the current six month period, an increase of $81,668. This increase is mainly due to an increase in co-location and cloud services revenues of $65,757 during the current six month period. Total expenses for the six month period ended November 30, 2016 were $515,436 as compared to $313,487 for the six month period ended November 30, 2015. Significant changes in general and administrative expenses for the six month period ended November 30, 2016 include the following:

a) Amortization of intangible assets, equipment and leasehold improvements totaling $169,910 (2015 - $129,486). The Company has commenced amortization of its Data Centre Equipment in the amount of $38,493 which was not used to generate co-location and cloud services revenues until after the year ended May 31, 2016. This is a non-cash expense.
b) Financing costs of $60,270 was recorded during the six month period ended November 30, 2016 for the convertible debenture financing of $1,023,000 as compared to $40,000 in bonus shares issued for

the arrangement of $200,000 in short-term loans during the six month period ended November 30, 2015.

c) Interest expense in the amount of $41,213 was accrued on the $1,023,000 convertible debenture and short-term loams during the six month period ended November 30, 2016 as compared to $1,365 accrued on short term loans of $185,000 during the six month period ended November 30, 2015.
d) Office facilities and administrative services increased from $39,390 during the six month period ended November 30, 2015 to $87,685 during the same period in 2016, an increase of $48,295. The major reasons for this increase was an increase in administrative costs due to increased activity and changes being made to accommodate more customers in the co-working space and co-location and cloud services operations.
e) Property operating expenses increased from $37,196 for the six month period ended November 30, 2015 to $74,754 for the six month period ended November 30, 2016, an increase of $37,558. The reason for this increase was an increase of activity in the co-location and cloud services expenditures. The revenues from these operations is increasing toward a break-even level of activity.
f) Office and sundry costs decreased from $34,551 for the six month period ended November 30, 2015 to $9,099 for the six month period ended November 30, 2016, a decrease of $25,452. These costs reflect insurance, telephone and office supplies expensed during the period.
g) Professional fees incurred during the period totaled $56,876 (2015 - $23,223), an increase of $33,653. This increase was mainly due to the professional services required for the closing of the convertible debenture financing and the requirement of quarterly financial reporting.

The net loss for the current period reflects an overall increase in marketing and business activities required in order to increase revenue.

Overall, the Company’s revenues and operating expenses increased significantly as compared to the prior period due to the increased revenues and expenses generated through its co-location and cloud services. There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. 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 in the condensed interim consolidated financial statements.

## 1.5 Summary of Quarterly Results

| | Q2<br>Nov. 30,<br>2017<br>$ | Q1<br>Aug. 31,<br>2017<br>$ | Q4<br>May 31,<br>2016<br>$ | Q3<br>Feb. 29,<br>2016<br>$ | Q2<br>Nov. 30,<br>2016<br>$ | Q1<br>Aug. 31,<br>2016<br>$ | Q4<br>Nov. 30,<br>2015<br>$ | Q3<br>Feb. 28,<br>2015<br>$ |
|---|---|---|---|---|---|---|---|---|
| Total revenues | 74,107 | 75,892 | 71,421 | 46,571 | 41,676 | 26,745 | 22,921 | 15,696 |
| Operating expenses | 28,297 | 46,457 | 78,071 | 19,298 | 18,786 | 18,410 | 23,740 | 21,414 |
| Administrative expenses | 111,024 | 159,748 | 47,768 | 78,739 | 98,952 | 47,853 | 35,189 | 35,734 |
| Amortization | 83,727 | 86,183 | 73,204 | 63,054 | 64,877 | 64,609 | 40,843 | 78,514 |
| Net loss | 148,941 | 216,406 | 127,622 | 114,520 | 140,939 | 104,127 | 76,851 | 119,966 |
| Basic loss per share (1) | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |

(1) Loss per share on a diluted basis is not disclosed as it is anti-dilutive due to losses incurred.

During the first quarter quarter of 2017 the Company incurred $60,270 in financing costs for the closing of the $1,023,000 convertible debenture.

During the second quarter of 2016, the Company incurred $40,000 in financing costs by the issuance of 333,333 bonus shares at a value of $0.12 per common for short-term loans of $200,000.

During the years ended May 31, 2015 and 2016 and the first and second quarter in 2017, the Company amortized intangible assets acquired with the acquisitions of Atlas Cloud and The Cranium.

## 1.6 Liquidity

At November 30, 2016, the Company's had working capital of $369,617 (May 31, 2016 – working capital deficiency of $391,771). Cash held at November 30, 2016 was $452,272, compared with $34,614 at May 31, 2016.

During the six month period ended November 30, 2016, the Company experienced cash outflows of $278,897 (2015 – $19,383) from operating activities. Investing activities decreased cash by $66,175 (2015 – $111,830). These cash outflows were incurred for the purchase of equipment required for its co-location and cloud services operations. Financing activities provided net proceeds of $762,730 for the convertible debenture financing and repayment of $200,000 of short-term loans. Overall, cash increased by $452,272 for the six month period ended November 30, 2016, as compared to an increase of $53,307 in the comparable period in 2015.

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 may at any time after six months following the date of issue, prepay 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.

Management expects to add further co-location and cloud services customers in the coming months. During the six month period ended November 30, 2016, the Company recorded co-location services income of $77,514. Co-working space rental income was $72,575 from its co-working space rental operations. Management is highly encouraged by the growth of the Cranium in recent months, and will continue to build out this secondary revenue stream.

The Company's continued operations are dependent on its ability to generate positive cash flows or obtain additional financing.

## 1.7 Capital Resources

As at November 30, 2016, the Company has cash of $452,272 (May 31, 2016 - $34,614). The current monthly "burn" rate for general and administrative expenses is approximately $50,000. The Company presently has long-term debt of $1,023,000 convertible debenture due June 2019 which requires semi-annual interest payments of $46,035.

The Company has been dependent upon external financings to fund activities; however, it expects to increase revenue during the upcoming fiscal year to generate positive cash flow. 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.

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

### 1.8 Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

### 1.9 Transactions between Related Parties

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts either due from or due to related parties other than specifically disclosed are non-interest bearing, unsecured and have no fixed terms of repayments.

a) During the six month period ended November 30, 2016, the Company incurred $18,000 (2015 - $18,000) for office facilities and administrative services to a director of the Company.

b) During the six month period ended November 30, 2016, the Company incurred $18,000 (2015 - $18,000) for property operating expenses to a director of the Company.

c) During the six month period ended November 30, 2016, the Company incurred $32,784 (2015 - $Nil) for accounting fees to a company controlled by a director of the Company

d) As of November 30, 2016, directors and a company with a director in common were owed a total of $23,776 (May 31, 2016 - $108,809) of which $20,000 is included in the convertible debenture financing.

Management compensation transactions for the six month periods ended November 30, 2016 and 2015 are summarized as follows:

| | **2016** | 2015 |
|---|---|---|
| Management compensation | **$ 68,784** | $ 36,000 |
| Share-based payments | **$ Nil** | $ Nil |

### 1.10 Second Quarter

Second quarter financial results do not differ significantly from prior periods other than the increase in co-location and cloud services revenues and expenses. The revenues generated by these are operations are increasing towards a break-even level.

### 1.11 Proposed Transactions

In the normal course of business, the Company evaluates property and business development acquisition transactions and, in some cases, makes proposals to acquire such prospects. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and property work commitments and/or financial obligations. These future obligations are usually contingent in nature and generally the Company is only required to incur the obligation if it wishes to continue with the transaction.

### 1.12 Critical Accounting Estimates

The Company is a venture issuer therefore this section is not applicable.

## 1.13 Changes in Accounting Policies including Initial Adoption

Future changes to IFRS as announced by the International Accounting Standards Board up to May 31, 2016 were discussed in the Company's May 31, 2016 MD&A and will not be effective for the current year or will not have a significant effect in the Company's financial reporting. IFRS changes announced in the Q2 of 2017 (if any) are not expected to have a significant effect on the Company's financial reporting.

## 1.14 Financial Instruments and Other Instruments

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these annual consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and process for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and are comprised of foreign currency risk and interest rate risk.

b) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation.

c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents is limited because of the short-term nature of the investments.

d) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consists primarily of cash and cash equivalents. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company considers this risk to be minimal.

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating year.

As at November 30, 2016, the Company had working capital of $369,617 (May 31, 2016 – working capital deficiency of $393,796).

*Determination of Fair Value:*

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The financial position carrying amounts for cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and promissory notes payable approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

- Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments are classified into the following categories:

| | | **November 30, 2016** | | May 31, 2016 | |
|---|---|---|---|---|---|
| | Level | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Cash | 1 | **$ 452,272** | **$ 452,272** | $ 34,614 | $ 34,614 |

## 1.15 Other MD & A Requirements

### Disclosure of Outstanding Share Capital

**Authorized:** Unlimited common shares without par value

| | SHARE CAPITAL | |
|---|---|---|
| | NUMBER | AMOUNT($) |
| **Balance, May 31, 2015** | **16,575,500** | **1,899,281** |
| Shares issued for loan advances | 333,333 | 40,000 |
| Share issue costs | - | (480) |
| **Balance, May 31, 2016** | **16,908,333** | **1,938,801** |
| Finder's warrants for debenture financing | - | (36,900) |
| Expiry of finder's warrant for private placement | - | 17,067 |
| **Balance, November 30, 2016 and the date of this report** | **16,908,833** | **$ 1,918,968** |

During the year ended May 31, 2016, the Company issued 333,333 common shares at a deemed value of $40,000 to lenders as bonus shares upon the advance of short term loans

During the period ended November 30, 2016, the Company recorded a charge against capital of $36,900 for the cost of finder's warrants for the convertible debenture financing. The Company also recorded an increased in share capital for finder's warrants issued for a private placement that expired unexercised.

### Escrow Shares

All the 5,000,000 shares issued to acquire Atlas Cloud Enterprises (2013) Ltd. 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 shares remaining in escrow. Subsequent to November 30, 2016, a further 750,000 shares were release from escrow to leave 750,000 remaining.

### Share Purchase Warrants

The following share purchase warrants were outstanding at November 30, 2016 and the date of this report:

| 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** | | |

### Stock Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Canadian Stock Exchange 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 of the Company. Options granted will be exercisable for a term to be determined by the board of Directors, but not exceeding 10 years.

The following stock options were outstanding at November 30, 2016 and the date of this report:

| NUMBER OF OPTIONS | EXERCISE PRICE | EXPIRY DATE |
| --- | --- | --- |
| 1,100,000 | $0.25 | September 5, 2024 |

## 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 November 30, 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 November 30, 2016 and have concluded that these controls and procedures are effective.

## SUBSEQUENT EVENTS

There are no significant subsequent events which have not been previously disclosed in this MD&A.

## DIRECTORS AND OFFICERS

The directors and officers of the Company are:

Fred Stearman, President, CEO and Director
Laurie Sadler, CFO and Director
Dr. John Veltheer, Director
Martin Burian, Director
Nicholas Glass, Director

## CONFLICTS OF INTEREST

Certain officers and directors of the Company are officers and/or directors of, or are associated with other venture companies. Such associations may give rise to conflicts of interest. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

## OUTLOOK

Management of the Company is highly encouraged by the growth of its co-location and cloud services operations and co-working space operations. Management anticipates to add further co-location and cloud services and co-working space customers in the coming months. We anticipate bringing on additional co-location clients as our ability to offer redundant back-up power as part of our service is brought on-stream.

## RISKS AND UNCERTAINTIES

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 continues to develop 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.

## OTHER INFORMATION

Other information relating to the Company may be found on the Company's website located at www.atlascloud.ca, the SEDAR website located at www.sedar.com and the Canadian Stock Exchange website located at thecse.com.

**BY ORDER OF THE BOARD**

**Atlas Cloud Enterprises Inc.**

**"***Fred Stearman***"**

President, CEO and Director
January 25, 2017