



ATLAS CLOUD ENTERPRISES INC.

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three and nine month periods ended February 28, 2017

(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 Inc. (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)

	FEBRUARY 28, 2017	MAY 31, 2016
Assets		
Current		
Cash	\$ 292,288	\$ 34,614
Amounts receivable	37,735	18,885
Prepaid expenses and deposits	1,203	2,025
Total Current Assets	331,226	55,524
Intangible assets (Note 4)	107,846	293,764
Property and equipment (Note 5)	710,171	698,506
Total Assets	\$ 1,149,243	\$ 1,047,794
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 50,623	\$ 220,018
Deferred revenue	265	27,277
Short term loans payable (Note 10)	-	200,000
Total Current Liabilities	50,888	447,295
Convertible debentures payable (Note 6)	888,396	-
Total Liabilities	939,284	447,295
Shareholders' Equity		
Share capital (Note 7)	1,918,968	1,938,801
Equity reserves	221,885	202,052
Equity component of convertible debentures (Note 6)	165,522	-
Deficit	(2,096,416)	(1,540,354)
Total Shareholders' Equity	209,959	600,499
Total Liabilities and Shareholders' Equity	\$ 1,149,243	\$ 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 February 28, 2017	Three Month Period Ended February 29, 2016	Nine Month Period Ended February 28, 2017	Nine Month Period Ended February 29, 2016
Revenue				
Co-location and cloud services	37,707	10,705	115,221	22,462
Software manufacturing rental facilities	\$ 34,247	\$ 35,866	\$ 106,822	\$ 92,530
Total Revenue	71,954	46,571	222,043	114,992
General and Administrative Expenses				
Amortization	\$ 86,156	\$ 63,054	\$ 256,066	\$ 192,540
Financing costs (Notes 8 and 10)	-	-	60,270	40,000
Interest and accretion (Notes 8 and 10)	54,259	4,000	95,472	5,365
Office facilities and administrative services (Note 8)	55,783	21,074	143,468	60,454
Office and sundry	6,454	10,932	15,553	45,548
Property operating expenses (Note 8)	44,270	19,298	119,024	56,424
Professional fees (Note 8)	11,819	39,282	68,695	62,505
Transfer agent, listing and filing fees	3,300	2,744	15,407	10,513
Travel and promotion	628	680	4,150	1,187
Total Expenses	(262,669)	(161,064)	(778,105)	(474,536)
Net Loss and Comprehensive Loss For The Period	\$ (190,715)	\$ (114,493)	\$ (556,062)	\$ (359,544)
Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)
Weighted Average Number Of Shares Outstanding	16,908,833	16,908,833	16,908,833	16,705,486

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)

Nine Month Periods ended February 28, 2017, February 29, 2016 and Year Ended May 31, 2016

	SHARE CAPITAL		EQUITY RESERVE	EQUITY COMPONENT OF CONVERTIBLE DEBENTURE		DEFICIT	TOTAL
	NUMBER	AMOUNT					
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	-	-	-	-	(359,544)	(359,544)	
Balance, February 29, 2016	16,908,833	1,938,801	202,052	-	(1,412,732)	728,121	
Net loss for the period	-	-	-	-	(127,622)	(127,622)	
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	-	17,067	(17,067)	-	-	-	
Convertible debentures	-	-	-	165,522	-	165,522	
Net loss for the period	-	-	-	-	(556,062)	(556,062)	
Balance, February 28, 2017	16,908,833	\$ 1,918,968	\$ 221,885	\$ 165,522	\$ (2,096,416)	\$ 209,959	

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)

	Nine Month Period Ended February 28, 2017	Nine Month Period Ended February 29, 2016
Operating Activities		
Net loss for the period	\$ (556,062)	\$ (359,544)
Adjustments for non-cash expenses and income		
Amortization	256,066	192,540
Finance costs	60,270	40,000
Accretion – convertible debenture	30,918	-
Changes in non-cash operating assets and liabilities		
Amounts receivable	(18,850)	14,422
Prepaid expenses and deposits	822	(1,202)
Accounts payable and accrued liabilities	(169,395)	58,426
Deferred revenue	(27,012)	
Cash Used In Operating Activities	(423,243)	(55,358)
Investing Activities		
Purchase of equipment	(81,813)	(119,486)
Cash Used In Investing Activities	(81,813)	(119,486)
Financing Activities		
Share issue costs	-	(480)
Advances from short-term loans	(200,000)	200,000
Proceeds of debenture financing	962,730	
Cash Provided By Financing Activities	762,730	199,520
Change In Cash	257,674	24,676
Cash, Beginning Of Period	34,614	13,515
Cash, End Of Period	\$ 452,272	\$ 38,191
Supplementary Information		
Cash paid for interest	\$ 49,043	\$ 5,365
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)
FEBRUARY 28, 2017
(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 and cloud services, back-up/redundancy IT, telecom equipment while also providing software manufacturing rental facilities 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 April 10, 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 condensed interim 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 April 10, 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 nine month period ended February 28, 2017. 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.

	February 28, 2017	May 31, 2016
Working capital (deficiency)	\$ 280,338	\$ (391,771)
Deficit	\$ (2,096,416)	\$ (1,540,354)

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
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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 software manufacturing rental facilities business segment and established 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, a private, unincorporated entity providing software manufacturing rental facilities 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 The 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
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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 February 28, 2017	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	185,918	-	185,918
As at February 28, 2017	635,827	10,000	645,827
Net Book Value as at May 31, 2016	293,764	-	293,764
Net Book Value as at February 28, 2017	\$ 107,846	\$ -	\$ 107,846

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

5. 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	-	72,320	9,492	81,812
As at February 28, 2017	13,979	655,485	133,923	803,387
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	1,595	57,846	10,706	70,147
As at February 28, 2017	4,941	57,846	30,429	93,216
Net Book Value as at May 31, 2016	10,633	583,165	104,708	698,506
Net Book Value as at February 28, 2017	\$ 9,038	\$ 597,639	\$ 103,494	\$ 710,171

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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.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. The Company valued the debt component of the convertible debentures by calculating the present value of the principal and interest payments, discounted at a rate of 16% being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity conversion feature of the convertible debentures comprises of the value of the conversion option, being the difference between the face value of the convertible debentures and the liability element calculated above. Based on this calculation, the liability component is \$857,478 and the residual equity component is \$165,522. Accretion charges attributable to the convertible debentures for the nine month period ended February 28, 2017 was \$30,918. Interest in the amount of \$15,511 has been accrued for the nine month period ended February 28, 2017.

7. SHARE CAPITAL

Authorized share capital

Unlimited common shares, without par value

Share issuances

As at February 28, 2017: 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).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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7. SHARE CAPITAL (cont'd...)

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 nine month period ended February 28, 2017 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, February 28, 2017	2,477,050	\$0.23

The following table summarizes the warrants outstanding and exercisable at February 28, 2017:

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 February 28, 2017, the weighted average remaining contractual life of all warrants outstanding was 0.51 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.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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FEBRUARY 28, 2017
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7. SHARE CAPITAL (cont'd...)

Stock options (cont'd...)

The continuity of options for the year ended May 31, 2016 and nine month period ended February 28, 2017 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, February 28, 2017	1,100,000	\$0.25

As at February 28, 2017, there are 1,100,000 options outstanding and exercisable at \$0.25 until September 5, 2024 with a weighted average remaining contractual life of 7.52 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 February 28, 2017, there were 750,000 (May 31, 2016 – 2,250,000) shares remaining in escrow.

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 nine month period ended February 28, 2017 the Company paid or accrued to the Chief Executive Officer \$78,000 (February 28, 2016 - \$54,000) of which 50% was recorded in office facilities and administrative services and 50% in property operating expense. As at February 28, 2017, \$2,027 was owing to the Chief Executive Officer (May 31, 2016 – \$55,954) included in accounts payable and accrued liabilities. Also, during the nine month period, the Company paid or accrued \$33,784 (February 28, 2016 - \$Nil) recorded in professional fees, for services provided by a company related to the Chief Financial Officer. As at February 28, 2017, \$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 nine month period ended February 28, 2017, these loans and accrued interest of \$3,008 were repaid.

During the nine month period ended February 28, 2017, a director of the Company purchased \$20,000 convertible debentures (Note 6). As at February 28, 2017, \$300 has been accrued and \$900 has been paid on this debenture.

ATLAS CLOUD ENTERPRISES INC.
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9. COMMITMENT

As at February 28, 2017, 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.

Nine Month Period ended February 28, 2017:

- \$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.

Nine Month Period ended February 29, 2016:

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