ATLAS CLOUD ENTERPRISES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For The Three and Nine Month Periods Ended February 28, 2017

This Management Discussion and Analysis for Atlas Cloud Enterprises Inc. (the "Company") provides analysis of the Company's financial results for the three and nine month periods ended February 28, 2017. The following information should be read in conjunction with the accompanying condensed interim consolidated financial statements and related notes for the three and nine month periods ended February 28, 2017.

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 nine month periods ended February 28, 2017 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 April 10, 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 increase 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 management 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 <u>Overall Performance</u>

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's secondary business is the rental of software manufacturing facilities to technological start-up businesses.

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 February 28, 2017, the Company had not yet achieved profitable operations, had incurred a loss and deficit of $2,096,416 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 and Cloud 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 co-location and cloud services business now has fully developed capabilities and growth opportunities exist by selling cloud and other services to existing and new technology related businesses.

Software Manufacturing Rental Facilities

In early December 2014, the Company executed an agreement to acquire the assets of The Cranium ("Cranium"), an entity providing software manufacturing rental facilities 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 Third Quarter Summary:

- For the three month period ended February 28, 2017, the Company recorded a net loss and comprehensive loss of $190,717 or $0.01 loss per share as compared to a net loss and comprehensive loss of $114,493 or $0.01 loss per share for the three month period ended February 29, 2016.

- As at February 28, 2017, the Company had total assets of $1,149,243 (May 31, 2016 - $1,047,794) and working capital of $280,338 (May 31, 2016 – working capital deficiency of $391,771).

Subsequent to February 28, 2017, the Company:

- Entered into a material co-location and cloud services agreement effective April 1, 2017. During the month of March, revenues of the co-location business surpassed revenues associated with the software manufacturing rental facilities, The Cranium. The co-location and cloud services business now has fully developed capabilities and growth opportunities exist by selling cloud and other services to existing and new tenants.
- The Company powered up 2 network racks to be able to service the new co-location and cloud services customer signed in March and for future expansion.

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. 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 3 of the February 28, 2017 condensed interim financial statements), it currently derives its primary revenue stream from its co-location and cloud services and its secondary revenue stream of providing software manufacturing rental facilities. 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 Results of Operations

During the three month period ended February 28, 2017, the Company recorded revenues of $71,954 (2016 - $46,571), of which $37,707 (2016 - $10,705) attributable from co-location and cloud services and $34,247 (2016 - $35,866) from software manufacturing rental facilities.

During the three month period ended February 28, 2017, the Company recorded a net loss and comprehensive loss of $190,715 or $0.01 per share, as compared to a net loss and comprehensive loss of $114,493 or $0.01 per share for the three month period ended February 29, 2016. Revenues increased from $46,571 for the three month period ended February 29, 2016 to $71,954 during the current three month period, an increase of $25,203. This increase is mainly due to an increase in co-location and cloud services revenue of $27,002 during the current three month period as compared to the prior period. Total expenses for the three month period ended February 28, 2017 were $262,669 as compared to $161,064 for the three month period ended February 29, 2016. Significant changes in general and administrative expenses for the three month period ended February 28, 2017 include the following:

a) Amortization of intangible assets, equipment and leasehold improvements totaling $86,156 (2016 - $63,054). The Company has commenced amortization of its Data Centre Equipment in the amount of $19,353 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) Interest and accretion in the amount of $54,259 was paid and/or accrued on the $1,023,000 convertible debentures during the three month period ended February 28, 2017 as compared to $4,000 accrued interest on short term loans of $200,000 during the three month period ended February 29, 2016.
c) Office facilities and administrative services increased from $21,074 during the three month period ended February 29, 2016 to $55,783 during the same period in 2017, an increase of $34,709. The significant reason for this increase was due to increased activity and changes being made to generate and accommodate more customers in the co-location and cloud services operations.
d) Office and sundry costs decreased from $10,932 for the three month period ended February 29, 2016 to $6,454 for the three month period ended February 28, 2017, a decrease of $4,478. These costs reflect insurance, telephone and office supplies incurred during the period.
e) Property operating expenses increased from $21,074 for the three month period ended February 29, 2016 to $44,270 for the three month period ended February 28, 2017, an increase of $24,972. The reason for this increase was an increase of activity in the co-location and cloud services. The revenues generated from this segment has surpassed the software manufacturing rental facilities segment and is increasing toward a break-even level of activity.
f) Professional fees incurred during the period totaled $11,819 (2016 - $39,282), a decrease of $27,463. This decrease was mainly due to the professional services required for the initiation and negotiations of the convertible debenture financing in the prior period 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 revenues in both its co-location and cloud services and software manufacturing rental facilities segments.

During the nine month period ended February 28, 2017, the Company recorded a net loss and comprehensive loss of $556,062 or $0.03 per share, as compared to a net loss and comprehensive loss of $359,544 or $0.02 per share for the nine month period ended February 29, 2016. Revenues increased from $114,992 for the nine month period ended February 29, 2016 to $222,043 during the current nine month period, an increase of $107,051. This increase is primarily due to an increase in co-location and cloud services revenues of $115,221 during the current nine month period as compared to $22,462 for the nine month period ended February 29, 2016. Total expenses for the nine month period ended February 28, 2017 were $778,105 as compared to $474,536 for the nine month period ended February 29, 2016. Significant changes in general and administrative expenses for the nine month period ended February 28, 2017 include the following:

a) Amortization of intangible assets, equipment and leasehold improvements totaling $256,066 (2016 - $192,540). The Company has commenced amortization of its Data Centre Equipment in the amount of $57,846 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 nine month period ended February 28, 2017 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 nine month period ended February 29, 2016.
c) Interest and accretion in the amount of $95,472 was paid and/or accrued on the $1,023,000 convertible debenture and short-term loans during the nine month period ended February 28, 2017 as compared to $5,365 accrued on short term loans of $200,000 during the nine month period ended February 29, 2016.
g) Office facilities and administrative services increased from $60,454 during the nine month period ended February 29, 2016 to $143,468 during the same period in 2017, an increase of $83,014. The significant reason for this increase was due to increased activity and changes being made to generate and accommodate more customers in the co-location and cloud services operations.
d) Office and sundry costs decreased from $45,548 for the nine month period ended February 29, 2016 to $15,553 for the nine month period ended February 28, 2017, a decrease of $29,995. These costs reflect insurance, telephone and office supplies expensed during the period.
e) Property operating expenses increased from $56,424 for the nine month period ended February 29, 2016 to $119,024 for the nine month period ended February 28, 2017, an increase of $62,600. The reason for this increase was an increase of activity in the co-location and cloud services. The revenues generated from this segment has surpassed the software manufacturing rental facilities segment and is increasing toward a break-even level of activity.
f) Professional fees incurred during the period totaled $68,695 (2016 - $62,505), an increase of $6,190. This increase was mainly due to the professional services required for the initiation and negotiations of the convertible debenture financing in the prior period 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 revenues in both its co-location and cloud services and software manufacturing rental facilities segments.

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

	Q3 Feb. 28, 2017 $	Q2 Nov. 30, 2017 $	Q1 Aug. 31, 2017 $	Q4 May 31, 2016 $	Q3 Feb. 29, 2016 $	Q2 Nov. 30, 2016 $	Q1 Aug. 31, 2016 $	Q4 Nov. 30, 2015 $
Total revenues	71,954	74,107	75,892	71,421	46,571	41,676	26,745	22,921
Operating expenses	44,270	28,297	46,457	78,071	19,298	18,786	18,410	23,740
Administrative expenses	132,243	111,024	159,748	47,768	78,739	98,952	47,853	35,189
Amortization	86,156	83,727	86,183	73,204	63,054	64,877	64,609	40,843
Net loss	190,717	148,941	216,406	127,622	114,520	140,939	104,127	76,851
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 of 2017 the Company incurred $60,270 in financing costs for the closing of the $1,023,000 convertible debentures. The Company also issued a total of 401,800 share purchase warrants exercisable for a period of 24 months from the date of closing with a fair value estimate of $36,900. This was a non-cash expense.

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, second and third quarters of 2017, the Company amortized intangible assets acquired with the acquisitions of Atlas Cloud and The Cranium.

1.6 Liquidity

At February 28, 2017, the Company had working capital of $280,338 (May 31, 2016 – working capital deficiency of $391,771). Cash held at February 28, 2017 was $292,288, compared with $34,614 at May 31, 2016.

During the nine month period ended February 28, 2017, the Company experienced cash outflows of $423,243 (February 29, 2016 – $55,358) from operating activities. Investing activities decreased cash by $81,813 (February 29, 2016 – $119,486). 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 $257,674 for the nine month period ended February 28, 2017, as compared to an increase of $24,676 in the comparable period in 2016.

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 debenture between the liability and equity components. The Company valued the debt component of the convertible debenture 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 debenture comprises of the value of the conversion option, being the difference between the face value of the convertible debenture 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 debenture 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.

Management expects to add further co-location and cloud services customers in the coming months. During the nine month period ended February 28, 2017, the Company recorded co-location services revenue of $115,221. Software manufacturing rental facilities revenue was $106,822. Management is highly encouraged by the growth of its co-location and cloud services revenues in recent months, and will continue to build out this primary 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 February 28, 2017, the Company has cash of $292,288 (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 nine month period ended February 28, 2017, the Company incurred $39,000 (2016 - $27,000) for office facilities and administrative services to Fred Stearman, President, CEO and a director of the Company.

b) During the nine month period ended February 28, 2017, the Company incurred $39,000 (2016 - $27,000) for property operating expenses to Fred Stearman, President, CEO and a director of the Company.

c) During the nine month period ended February 28, 2017, the Company incurred $33,784 (2016 - $Nil) for accounting fees to a company controlled by Laurie Sadler, CFO and 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 $24,827 (May 31, 2016 - $108,809) of which $20,000 is included in the convertible debentures payable and $300 accrued interest is included in accounts payable and accrued liabilities. $900 has been paid to Nicholas Glass, an independent director of the Company for interest on the convertible debentures.

Management compensation transactions are summarized as follows:

	Nine Month Period Ended February 28, 2017	Nine Month Period Ended February 29, 2016
Management compensation	**$ 78,000**	$ 54,000
Share-based payments	**$ Nil**	$ Nil

1.10 Third Quarter

Third 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 Q3 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 February 28, 2017, the Company had working capital of $280,338 (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:

		February 28, 2017		May 31, 2016	
	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Cash	1	**$ 292,288**	**$ 292,288**	$ 34,614	$ 34,614
Convertible debentures	3	**$ 888,396**	**$ 888,396**	$ -	$ -

1.15 Other MD & A Requirements

Disclosure of Outstanding Share Capital

Authorized: Unlimited common shares without par value

	SHARE CAPITAL	
	NUMBER	AMOUNT($)
Balance, May 31, 2015	**16,575,500**	**1,899,281**
Shares issued for loan advances	333,333	40,000
Share issue costs	-	(480)
Balance, May 31, 2016	**16,908,333**	**1,938,801**
Finder's warrants for debenture financing	-	(36,900)
Expiry of finder's warrant for private placement	-	17,067
Balance, February 28, 2017 and the date of this report	**16,908,833**	**$ 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 nine month period ended February 28, 2017, 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 increase in share capital of $17,067 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 February 28, 2017, there were 750,000 shares remaining in escrow.

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 February 28, 2017 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 February 28, 2017.

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 February 28, 2017 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 software manufacturing rental facilities 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
April 10, 2017