ATLAS CLOUD ENTERPRISES INC.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended May 31, 2017

(Expressed in Canadian dollars)

Independent Auditors' Report

MNP LLP

To the Shareholders of Atlas Cloud Enterprises Inc.:

We have audited the accompanying consolidated financial statements of Atlas Cloud Enterprises Inc., which comprise the consolidated statement of financial position as at May 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Atlas Cloud Enterprises Inc. as at May 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 of these consolidated financial statements, which states that Atlas Cloud Enterprises Inc. incurred losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 2, indicates the existence of a material uncertainty which may cast significant doubt about the ability of Atlas Cloud Enterprises Inc. to continue as a going concern.

Other Matter
We would like to draw attention to the fact that the financial statements of of Atlas Cloud Enterprises Inc. for the year ended May 31, 2016 were audited by other auditors who expressed an unmodified opinion on those statements on September 27, 2016.

Vancouver, British Columbia

September 19, 2017

MNP LLP
Chartered Professional Accountants

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

		AS AT MAY 31, 2017		2016
Assets				
Current				
Cash	$	**223,623**	$	34,614
Accounts receivable		**94,550**		18,885
Prepaid expenses		**4,335**		-
Total Current Assets		**322,508**		53,499
Deposit		**-**		2,025
Intangible assets (Note 4)		**45,873**		293,764
Property and equipment (Note 5)		**639,461**		698,506
Total Assets	$	**1,007,842**	$	1,047,794
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 8)	$	**94,755**	$	220,018
Deferred revenue		**2,270**		27,277
Short term loan payable (Note 12)		-		200,000
Total Current Liabilities		**97,025**		447,295
Convertible debentures payable (Note 6)		**828,800**		-
Total Liabilities		**925,825**		447,295
Shareholders' Equity				
Share capital (Note 7)		**1,955,868**		1,938,801
Equity reserves (Note 7)		**221,885**		202,052
Equity component of convertible debentures (Note 6)		**112,857**		-
Deficit		**(2,208,593)**		(1,540,354)
Total Shareholders' Equity		**82,017**		600,499
Total Liabilities and Shareholders' Equity	$	**1,007,842**	$	1,047,794

Basis of presentation and going concern (Note 2)
Commitment (Note 11)

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 consolidated financial statements

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

	YEARS ENDED MAY 31	
	2017	2016
Revenue		
Co-location and cloud services	$ **175,578**	$ 45,527
Software manufacturing facility rental income	**145,822**	140,886
Bad debt expense	**(7,772)**	-
Miscellaneous revenue	**245**	-
Total Revenue	**313,873**	186,413
General and Administrative Expenses		
Amortization	$ **386,626**	$ 252,891
Financing costs (Notes 12)	**-**	40,000
Interest and accretion (Notes 6 and 8)	**149,912**	12,860
Office facilities and administrative services (Note 8)	**206,352**	44,784
Office and sundry	**21,523**	54,251
Property operating expenses (Note 8)	**156,272**	147,418
Professional fees (Note 8)	**76,868**	102,002
Transfer agent, listing and filing fees	**18,715**	17,338
Travel and promotion	**5,496**	2,035
Total Expenses	**(1,021,764)**	(673,579)
Net Loss before Other Item	**(707,891)**	(487,166)
Other item:		
Deferred tax recovery	**39,652**	-
Net Loss and Comprehensive Loss For The Year	$ **(668,239)**	$ (487,166)
Basic and Diluted Loss Per Share	$ **(0.04)**	$ (0.03)
Weighted Average Number of Shares Outstanding	**16,908,883**	16,705,486

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

Years Ended May 31, 2017 and 2016

	SHARE CAPITAL NUMBER	SHARE CAPITAL AMOUNT	EQUITY RESERVE	EQUITY COMPONENT OF CONVERTIBLE DEBENTURES	DEFICIT	TOTAL
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 year	-	-	-	-	(487,166)	(487,166)
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				112,857		112,857
Net loss for the year	-	-	-	-	(668,239)	(668,239)
Balance, May 31, 2017	**16,908,833**	**$ 1,955,868**	**$ 221,885**	**$ 112,857**	**$ (2,208,593)**	**$ 82,017**

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

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

	YEARS ENDED MAY 31 **2017**	2016
Operating Activities		
Net loss for the year	**$ (668,239)**	$ (487,166)
Adjustments for non-cash expenses and income		
Accretion	**62,664**	-
Amortization	**386,626**	252,891
Finance costs	**-**	40,000
Property operating expense	**-**	12,853
Deferred tax recovery	**(39,652)**	-
Changes in non-cash operating assets and liabilities		
Amounts receivable	**(75,665)**	19,703
Prepaid expenses	**(2,311)**	-
Accounts payable and accrued liabilities	**(125,263)**	110,358
Deferred revenue	**(25,007)**	27,277
Cash Used In Operating Activities	**(486,846)**	(24,084)
Investing Activities		
Purchase of equipment	**(79,690)**	(139,337)
Cash Used In Investing Activities	**(79,690)**	(139,337)
Financing Activities		
Proceeds from short term loan payable	**(200,000)**	185,000
Financing costs	**(6,668)**	(480)
Proceeds from debenture financing	**956,057**	-
Cash Provided By Financing Activities	**755,545**	184,520
Change In Cash	**189,009**	21,099
Cash, Beginning of Year	**34,614**	13,515
Cash, End of Year	**$ 223,623**	$ 34,614

Supplementary Information		
Cash paid for interest	**$ 46,035**	$ -
Cash paid for income taxes	**$ -**	$ -

Non-cash Investing and Financing Transactions (Note 13)

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

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 1900, 520 – 3rd Avenue S.W., Calgary, Alberta, T2P 0R3.

The Company's primary business is providing co-location, back-up/redundancy IT, telecom equipment, and cloud computing to small to medium size businesses in Western Canada. The Company's secondary business is providing software manufacturing rental facilities to IT startup companies.

2. BASIS OF PRESENTATION AND GOING CONCERN

a) Statement of Compliance

These consolidated financial statements, including comparatives have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and interpretations by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors on September 20, 2017.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

c) Going Concern

	MAY 31,	
	2017	2016
Working capital (deficiency)	**$ 225,483**	$ (393,796)
Deficit	**$ (2,208,593)**	$ (1,540,354)

These 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. The Company derives revenues from its primary business, the provision of co-location and cloud services which has now surpassed revenues from its software manufacturing rental facility business segment. 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.

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

d) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Atlas Cloud Enterprises (2013) Ltd. whose operations have been included in these consolidated financial statements since July 23, 2014. All significant intercompany balances and transactions have been eliminated on consolidation.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost" as follows:

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

(i) Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. FVTPL assets are initially recorded at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash is classified as FVTPL.

(ii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Accounts receivable are classified as loans and receivables.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are initially recorded at fair value and subsequently measured at amortized cost.

The Company does not have any held-to-maturity financial assets.

(iv) Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. They are initially and subsequently measured at fair value and the changes in fair value, other than impairment losses are recognized in other comprehensive income (loss) and presented in the fair value reserve in shareholders' equity. When the financial assets are sold or an impairment write-down is required, losses accumulated in the fair value reserve recognized in shareholders' equity are included in profit or loss.

The Company does not have any available-for-sale financial assets.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

(i) Other financial liabilities

The category consists of liabilities carried at amortized cost being the effective interest method. The Company's accounts payable and accrued liabilities and short-term loan payable are classified as other financial liabilities.

Compound financial instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been impacted.

For all financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principle payments; or
- It has become probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In a subsequent period if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Share-based payment transactions

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

Stock options granted to directors, officers and employees are measured at their fair values determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options on a graded basis. Options granted to consultants or other non-insiders are measured at the fair value of the goods or services received from these parties, or at their Black-Scholes fair values if the fair value of goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.

When stock options are exercised, the cash proceeds along with the amount previously recorded as equity reserves are recorded as share capital. When the right to receive options is forfeited before the options have vested, any expense previously recorded is reversed.

Share capital

Financial instruments issued by the Company are classified as share capital only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in a private placement is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the day prior to the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as share-based payments reserve.

Share purchase warrants

The fair value of compensatory warrants issued by the Company are determined on their issuance date, using the Black-Scholes option pricing model, and are recorded as a component of equity reserves. When the warrants are granted as compensation for the receipt of goods or services, they are recorded either as an expense or as a cost, capitalized to share capital or assets, on the same basis as equivalent cash payments.

When share purchase warrants are exercised, the cash proceeds and their fair value previously recorded in equity reserves are recorded as share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Taxes

The Company follows the asset and liability method of accounting for income tax. Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(i) Current tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(Loss) earnings per share

Basic (loss) earnings per share is calculated by dividing net (loss) earnings by the weighted average number of common shares outstanding during the period which excludes shares held in escrow whose issuance is contingent on future events.

Diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options and common share purchase warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of "in-the-money" stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period. For the years presented, this calculation proved to be anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Significant accounting judgments and estimation uncertainties

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statement, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimates are revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

a) Intangible Assets – useful lives

Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

b) Valuation of share-based payments and compensatory warrants

Share-based payments and compensatory warrants are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to profit or loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

c) Convertible debentures

Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debentures components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Significant accounting judgments and estimation uncertainties (cont'd…)

d) Deferred taxes

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant judgment of future taxable profit. Management is required to assess whether it is probable that the Company will benefit from its deferred tax assets. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred tax assets.

(ii) Significant accounting judgements

a) Non-financial assets – impairment

The application of the Company's accounting policy for non-financial assets requires judgement in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. Whenever there is an indicator for impairment management evaluates the recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. Intangibles are written down to their recoverable amount when a decline is identified. The determination of the recoverable amount requires the use of management's best assessment of the related inputs into the valuation models, such as future cash flows and discount rates.

b) Property and equipment – assessment of available for use and the start of depreciation

Depreciation of property and equipment begins when it is available for use, which is defined as occurring when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Judgment is required in determining whether the property and equipment is available for use at each reporting date.

c) Share-based payments

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Property and Equipment

Equipment is recorded at historical cost less related accumulated depreciation and impairment losses. Cost is determined as the expenditure directly attributable to the asset at acquisition, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. When an asset is disposed of, its carrying cost is derecognized. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property and Equipment (cont'd…)

The Company provides for depreciation of equipment on a declining balance basis unless otherwise noted using the following annual rates:

Furniture and equipment	20%
Data Centre equipment	20%

Leasehold improvements are amortized on a straight-line basis over the 10-year lease term.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets

The Company owns intangible assets consisting of rights to knowledge and expertise over a specific period and co-working space rental contacts. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The Company does not hold any intangible assets with indefinite lives. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Rights to knowledge and expertise for a specific period will be amortized on a straight line basis over a period of three years which is recorded in amortization. Co-working space rental contracts was amortized on a straight line basis over a period of one year, which was recorded in property operating expenses.

Impairment of long-lived assets

The carrying amount of the Company's long-lived assets (which includes equipment and intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in previous periods.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statements of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

Revenue recognition

Rental revenue from software manufacturing facility rental, co-location and from cloud services provided is recognized when a tenant commences occupancy pursuant to the terms of each contract and rent is due or rights to receive consideration are obtained and collection of consideration is reasonably assured. Revenue received in advance of these criteria is deferred until future periods.

Accounting standards

New accounting standards and interpretation

The Company has not implemented any changes to its accounting policies during the year ended May 31, 2017.

(i) IFRS 7 Financial instruments: Disclosure

IFRS 7 Financial instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

(ii) IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

(iii) IFRS 15 Revenue from Contracts with Customers

The IASB replaced IAS 18, Revenue, in its entirety with IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contractbased five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted.

(iv) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

(Expressed in Canadian dollars)

4. INTANGIBLE ASSETS

	Atlas Cloud	The Cranium	Total
Cost as at May 31, 2015, 2016 and 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	247,891	-	247,891
As at May 31, 2017	**697,800**	**10,000**	**707,800**
Net Book Value as at May 31, 2016	293,764	-	293,764
Net Book Value as at May 31, 2017	**$ 45,873**	**$ -**	**$ 45,873**

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	-	70,948	8,742	79,690
As at May 31, 2017	**13,979**	**654,113**	**133,173**	**801,265**
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	2,127	123,728	12,880	138,735
As at May 31, 2017	**5,473**	**123,728**	**32,603**	**161,804**
Net Book Value as at May 31, 2016	10,633	583,165	104,708	698,506
Net Book Value as at May 31, 2017	**$ 8,506**	**$ 530,385**	**$ 100,570**	**$ 639,461**

6. CONVERTIBLE DEBENTURES

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 $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 by finder, 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 $766,653 and the residual equity component is $112,857 (net of deferred tax of $39,652). Accretion charges attributable to the convertible debentures for the year ended May 31, 2017 was $62,664, and interest expense was $84,240 which includes $38,722 of interest payable as at May 31, 2017.

7. SHARE CAPITAL

Authorized share capital

Unlimited common shares, without par value

Share issuances

As at May 31, 2017: 16,908,833 (2016 – 16,908,833) shares were issued and outstanding, of which 750,000 (2016 – 2,250,000) shares were held in escrow.

(Expressed in Canadian dollars)

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 years ended May 31, 2017 and 2016 is summarized below:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, May 31, 2015	2,463,200	$0.25
Exercised/Issued/Expired	-	-
Balance, May 31, 2016	2,463,200	$0.25
Expired	(387,950)	0.25
Issued	401,800	0.15
Balance, May 31, 2017	**2,477,050**	**$0.23**

The following table summarizes the warrants outstanding and exercisable at May 31, 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 May 31, 2017, the weighted average remaining contractual life of all warrants outstanding was 0.25 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. Subsequent to May 31, 2017, 2,075,250 warrants expired unexercised.

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.

As at May 31, 2017 and 2016, there are 1,100,000 options outstanding and exercisable at $0.25 until September 5, 2024 with a weighted average remaining contractual life of 7.27 years (2016 – 8.27 years).

7. SHARE CAPITAL (cont'd…)

Escrowed shares

All of 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 May 31, 2017, there were 750,000 shares remaining in escrow (2016 - 2,250,000). Subsequent to May 31, 2017, 750,000 shares were released leaving nil 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 year ended May 31, 2017 the Company paid or accrued to the Chief Executive Officer $96,000 (2016 - $72,000) of which 50% was recorded in office facilities and administrative services and 50% in property operating expense. As at May 31, 2017, $2,196 was owing to the Chief Executive Officer (2016 - $55,954) included in accounts payable. Also, during the year, the Company paid or accrued $33,784 (2016 - $24,937) recorded in professional fees, for professional services provided by a company related to the Chief Financial Officer. As at May 31, 2017, $nil was owing to the Chief Financial Officer included in accounts payable (2016 - $4,739).

During the year ended May 31, 2016, the Company recorded $50,000 from three directors of the Company as a short-term loan payable (Note 12). The Company paid interest to the related parties in relation to the short-term loan of $405 (2016 - $2,855).

During the year ended May 31, 2017, a director of the Company purchased $20,000 convertible debentures (Note 6). As at May 31, 2017, $750 has been accrued and is included in accounts payable and accrued liabilities and $900 has been paid to the director.

(Expressed in Canadian dollars)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at May 31, 2017, the Company's financial instruments are comprised of cash, accounts receivable, accounts payable and accrued liabilities, debenture payable and short term loan. The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs that are not based on observable market data (unobservable inputs).

As at May 31, 2017, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper. Credit risk is not concentrated with any particular customer. The Company's accounts receivable consist primarily of rent owing from co-location and co-working clients. A portion of accounts receivable is also made up of sales tax refundable from the government. In an effort to mitigate credit risk, management monitors its accounts receivable and it has been determined that no bad debts need to be recorded as all amounts are considered to be collectible.

As at May 31, 2017 and 2016, the Company's aging of accounts receivables was as follows:

	Current	31 – 60 days	61 – 90 days	91 days +	Total
May 31, 2017	**$ 21,642**	**$ 17,622**	**$ 9,793**	**$ 45,493**	**$ 94,550**
May 31, 2016	$ 5,027	$ 5,009	$ 8,481	$ 368	$ 18,885

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company seeks to ensure there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. As at May 31, 2017, the Company had a cash balance of $223,623 to settle current liabilities of $97,025. The Company is exposed to liquidity risk.

As at May 31, 2017, the Company has the following financial obligations:

	< 1 year	1 – 3 years	Total
Accounts payable and accrued liabilities	$ 94,755	$ -	$ 94,755
Deferred revenues	$ 2,270	$ -	$ 2,270
Convertible debentures	$ -	$ 828,800	$ 828,800
	$ 97,025	$ 828,800	$ 925,825

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

i. Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company's short term loan payable is subject to interest. Additionally, some of the Company's accounts payable and accrued liabilities are subject to interest on unpaid balances.

ii. Foreign currency risk

Foreign currency risk arises from fluctuations in foreign currencies versus the Canadian dollar that could adversely affect reported balances and transactions denominated in those currencies. The Company currently has no assets or liabilities and has no revenue or expenses denominated in a foreign currency, so it is not exposed to foreign currency risk.

iii. Equity price risk

Equity price risk arises from market fluctuations in equity prices that could adversely affect the Company's operations. The Company's current exposure to equity price risk is limited to declines in the values and volumes including those of its own shares, which could impede its ability to raise additional funds when required.

10. CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its primary business; the provision of co-location, back-up/redundancy IT telecom equipment, and Cloud computing, to small and medium businesses in Western Canada. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has been dependent upon external financings to fund activities; however, it expects to increase revenue during the upcoming fiscal year. In order to carry out planned expenditures and pay for administrative costs, the Company will spend its existing working capital and may seek to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

11. COMMITMENT

As at May 31, 2017, the Company is committed to a ten year operating lease for its 7,400 square foot office with an annual commitment of $123,840 until November 2024 with an option to renew for an additional ten year term.

(Expressed in Canadian dollars)

12. SHORT TERM LOANS PAYABLE

On October 26, 2015, the Company arranged short term loans in the amount of $200,000. These loans are 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. During the year ended May 31, 2017, $3,008 (2016 – $12,860) of interest expense was recorded.

13. 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 Consolidated Statements of Cash Flows.

Year ended May 31, 2017:

- $17,067 was transferred from equity 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 convertible debenture financing.

Year ended May 31, 2016:

- $43,780 of equipment was included in accounts payable.
- $15,000 was transferred from accounts payable to short-term loan payable.

14. SEGMENTED INFORMATION

The Company has two reportable operating segments, being the co-location data centre and the software manufacturing rental space in Canada. All capital assets are located in Canada. The summarized financial information for revenue derived by segment is as follows:

		2017		2016
Total revenues:				
Co-location and cloud services	$	**175,578**	$	45,527
Software manufacturing rental facilities		**145,822**		140,886
Bad debt expense		**(7,772)**		-
Miscellaneous revenue		**245**		-
	$	**313,873**	$	186,413

(Expressed in Canadian dollars)

15. INCOME TAXES

A reconciliation of the Company's income tax provision computed at statutory tax rates to the reported income tax provision for the years ended May 31, 2017 and 2016 as follows:

	2017	2016
	$	$
Net loss before tax	(707,891)	(487,166)
Statutory tax rate	26%	26%
Expected income tax (recovery)	(184,052)	(126,663)
Non-deductible items	64,775	65,000
Change in deferred tax assets not recognized	79,625	61,663
Total income tax expense (recovery)	(39,652)	-

	2017	2016
	$	$
Current tax expense (recovery)	-	-
Deferred tax expense (recovery)	(39,652)	-
Total income tax expense (recovery)	(39,652)	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Deferred tax assets (liabilities) as at May 31, 2017 and 2016 are as follows:

	2017	2016
	$	$
Non capital loss carryforwards	50,492	-
Convertible debenture	(50,492)	-
Net deferred tax asset (liability)	-	-

The unrecognized deductible temporary differences are as follows:

	2017	2016
	$	$
Equipment	161,801	21,000
Exploration and evaluation asset	10,785	11,000
Eligible capital property	9,000	9,000
Financing cost	130,928	57,000
Non-capital loss carryforwards	1,038,987	978,000
Unrecognized deductible temporary differences	1,351,501	1,076,000

(Expressed in Canadian dollars)

15. INCOME TAXES (cont'd…)

As at May 31, 2017 the Company has not recognized a deferred tax asset in respect of non capital loss carryforwards of approximately $1,038,987 (2016: 978,000) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	$
2032	41,394
2033	104,354
2034	123,234
2035	269,814
2036	202,185
2037	298,006
Total	1,038,987