



ATLAS CLOUD ENTERPRISES INC.

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three month period ended August 31, 2017

(Expressed in Canadian dollars)

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

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

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

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

ATLAS CLOUD ENTERPRISES INC.

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

	AUGUST 31, 2017	MAY 31, 2017
Assets		
Current		
Cash	\$ 155,449	\$ 223,623
Accounts receivable	60,093	94,550
Prepaid expenses	6,339	4,335
Total Current Assets	221,881	322,508
Intangible assets (Note 3)	-	45,873
Property and equipment (Note 4)	609,187	639,461
Total Assets	\$ 831,068	\$ 1,007,842
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 37,974	\$ 94,755
Deferred revenue	264	2,270
Total Current Liabilities	38,238	97,025
Convertible debentures payable (Note 5)	848,518	828,800
Total Liabilities	886,756	925,825
Shareholders' Equity/(Deficiency)		
Share capital (Note 6)	1,955,868	1,955,868
Equity reserves (Note 6)	221,885	221,885
Equity component of convertible debentures (Note 5)	112,857	112,857
Deficit	(2,346,298)	(2,208,593)
Total Shareholders' Equity/(Deficiency)	(55,688)	82,017
Total Liabilities and Shareholders' Equity/(Deficiency)	\$ 831,068	\$ 1,007,842

Basis of presentation and going concern (Note 2)
Commitment (Note 8)

Approved on behalf of the Board of Directors:

"Frederick W. Stearman"

Director

"Martin A. Burian"

Director

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

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

	THREE MONTH PERIOD	
	ENDED AUGUST 31,	
	2017	2016
Revenue		
Co-location and cloud services	\$ 48,637	\$ 39,707
Software manufacturing facility rental income	46,490	36,275
Bad debt expense	(2,919)	-
Miscellaneous revenue	12	-
Total Revenue	92,220	75,982
General and Administrative Expenses		
Amortization	76,147	86,183
Financing costs (Note 5)	-	60,270
Interest and accretion (Notes 5 and 7)	42,219	18,353
Office facilities and administrative services (Note 7)	46,116	39,390
Office and sundry	9,620	1,701
Property operating expenses (Note 7)	35,640	46,457
Professional fees (Note 7)	14,094	33,170
Transfer agent, listing and filing fees	4,252	6,136
Travel and promotion	1,837	728
Total Expenses	(229,925)	(292,388)
Net Loss and Comprehensive Loss For The Period	\$ (137,705)	\$ (216,406)
Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.01)
Weighted Average Number of Shares Outstanding	16,908,883	16,908,833

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

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

Three Month Periods Ended August 31, 2016 and 2017 and Year Ended May 31, 2017

	SHARE CAPITAL		EQUITY	EQUITY	DEFICIT	TOTAL
	NUMBER	AMOUNT	RESERVE	COMPONENT OF CONVERTIBLE DEBENTURES		
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 period	-	-	-	-	(216,406)	(216,406)
Balance, August 31, 2016	16,908,833	1,955,868	221,885	112,857	(1,756,760)	533,850
Net loss for the period	-	-	-	-	(451,833)	(451,833)
Balance, May 31, 2017	16,908,833	1,955,868	221,885	112,857	(2,208,593)	82,017
Net loss for the period	-	-	-	-	(137,705)	(137,705)
Balance, August 31, 2017	16,908,833	\$ 1,955,868	\$ 221,885	\$ 112,857	\$ (2,346,298)	\$ (55,688)

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

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

	THREE MONTH PERIOD	
	ENDED AUGUST 31,	
	2017	2016
Operating Activities		
Net loss for the period	\$ (137,705)	\$ (216,406)
Adjustments for non-cash expenses and income		
Accretion	19,718	-
Amortization	76,147	86,183
Changes in non-cash operating assets and liabilities		
Amounts receivable	34,457	(21,430)
Prepaid expenses	(2,004)	(1,575)
Accounts payable and accrued liabilities	(56,781)	(103,533)
Deferred revenue	(2,006)	(27,277)
Cash Used In Operating Activities	(68,174)	(284,038)
Investing Activities		
Purchase of equipment	-	(64,394)
Cash Used In Investing Activities	-	(64,394)
Financing Activities		
Repayment of short term loan payable	-	(200,000)
Proceeds from debenture financing	-	1,023,000
Cash Provided By Financing Activities	-	823,000
Change In Cash	(68,174)	474,568
Cash, Beginning of Period	223,623	34,614
Cash, End of Period	\$ 155,449	\$ 509,182
Supplementary Information		
Cash paid for interest	\$ 46,035	\$ -
Cash paid for income taxes	\$ -	\$ -

Non-cash Investing and Financing Transactions (Note 9)

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

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
AUGUST 31, 2017
(UNAUDITED)

1. NATURE OF OPERATIONS

Atlas Cloud Enterprises Inc. (the “Company”), which was incorporated under the *Business Corporations Act* (Alberta) on January 21, 2010, has a registered and records office at 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

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

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Atlas Cloud Enterprises (2013) Ltd. All significant intercompany balances and transactions have been eliminated on consolidation.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of October 18, 2017, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the condensed interim consolidated financial statements for the three month period ended August 31, 2017. The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company’s annual financial statements and the notes thereto for the year ended May 31, 2017.

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

	AUGUST 31, 2017	MAY 31, 2017
Working capital	\$ 183,643	\$ 225,483
Deficit	\$ (2,346,298)	\$ (2,208,593)

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
AUGUST 31, 2017
(UNAUDITED)

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

These condensed interim consolidated financial statements have been prepared, in accordance with IFRS, on the assumption that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since inception. It currently derives revenues from its software manufacturing rental facilities business segment and established revenues from its primary business, the provision of co-location and cloud services. Its ability to continue as a going concern depends upon whether it develops profitable operations and continues to raise adequate financing. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

There can be no assurance that the Company will be able to raise the funds necessary to continue future operations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statements of financial position. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

3. INTANGIBLE ASSETS

	Atlas Cloud (2013)	The Cranium	Total
Cost as at May 31, 2016, 2017 and August 31, 2017	\$ 743,673	\$ 10,000	\$ 753,673
Amortization			
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
Additions	45,873	-	45,873
As at August 31, 2017	743,673	10,000	753,673
Net Book Value as at May 31, 2017	45,873	-	45,873
Net Book Value as at August 31, 2017	\$ -	\$ -	\$ -

4. PROPERTY AND EQUIPMENT

	Furniture and Equipment	Data Centre Equipment	Leasehold Improvements	Total
Cost				
As May 31, 2016	13,979	583,165	124,431	721,575
Additions	-	70,948	8,742	79,690
As at May 31, 2017 and August 31, 2017	13,979	654,113	133,173	801,265
Amortization				
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
Additions	425	26,519	3,330	30,274
As at August 31, 2017	5,898	150,247	35,933	192,077
Net Book Value as at May 31, 2017	8,506	530,385	100,570	639,461
Net Book Value as at August 31, 2017	\$ 8,081	\$ 503,866	\$ 97,240	\$ 609,187

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
AUGUST 31, 2017
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5. 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 \$848,518 (May 31, 2017 - \$828,800) and the residual equity component is \$112,857 (net of deferred tax of \$39,652). Accretion charges attributable to the convertible debentures for the three month period ended August 31, 2017 was \$19,718 and interest expense was \$22,501 which includes \$15,188 of accrued interest included in accounts payable and accrued liabilities.

6. SHARE CAPITAL

Authorized share capital

Unlimited common shares, without par value

Share issuances

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

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
AUGUST 31, 2017
(UNAUDITED)

6. 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 and three month period ended August 31, 2017 is summarized below:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
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
Expired	(2,075,250)	0.25
Balance, May 31, 2017	401,800	\$0.15

The following table summarizes the warrants outstanding and exercisable at August 31, 2017:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
392,000	\$0.15	June 29, 2018
9,800	\$0.15	July 22, 2018
401,800		

As at August 31, 2017, the weighted average remaining contractual life of all warrants outstanding was 0.83 years (May 31, 2017 – 0.25 years).

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 August 31, 2017, 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 7.02 years (May 31, 2017 – 7.27 years).

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 August 31, 2017, there were nil shares remaining in escrow (May 31, 2017 - 750,000).

ATLAS CLOUD ENTERPRISES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
AUGUST 31, 2017
(UNAUDITED)

7. 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 three month period ended August 31, 2017 the Company paid or accrued to the Chief Executive Officer \$18,000 (2016 - \$18,000) of which 50% was recorded in office facilities and administrative services and 50% in property operating expense. As at August 31, 2017, \$nil was owing to the Chief Executive Officer (May 31, 2017 - \$2,196) included in accounts payable. Also, during the period, the Company paid or accrued \$nil (August 31, 2016 - \$20,064) recorded in professional fees for professional services provided by a company related to the Chief Financial Officer.

During the three month period ended August 31, 2017, the Company paid interest to the related parties in relation to a short-term loan of \$nil (August 31, 2016 - \$405).

During the year ended May 31, 2017, a director of the Company purchased \$20,000 convertible debentures (Note 5). As at August 31, 2017, \$311 has been accrued and is included in accounts payable and accrued liabilities (May 31, 2017 - \$750) and \$450 (August 31, 2016 - \$nil) has been paid to the director.

8. COMMITMENT

As at August 31, 2017, the Company's subsidiary 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.

9. 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.

Period ended August 31, 2017:

- No non-cash transactions.

Period ended August 31, 2016:

- \$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.