



ATLAS CLOUD ENTERPRISES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For The Three Month Period Ended August 31, 2017

This Management Discussion and Analysis for Atlas Cloud Enterprises Inc. (the “Company”) provides analysis of the Company’s condensed interim consolidated financial results for the three month period ended August 31, 2017 and should be read in conjunction with the accompanying condensed interim consolidated financial statements and related notes for the three month period ended August 31, 2017.

1.1 Date of Report

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 month period ended August 31, 2017 and the Company’s annual audited consolidated financial statements and related notes for the year ended May 31, 2017 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 October 18, 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 Overall Performance

Nature of Business and Overall Performance

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

The Company entered into a Share Exchange Agreement on March 18, 2014 which completed July 23, 2014 with Atlas Cloud Enterprises (2013) Ltd., a private British Columbia corporation, and the shareholders of Atlas Cloud, whereby the Company acquired 100% of the issued and outstanding shares in exchange for 5,000,000 common shares of the Company.

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".

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.

As at August 31, 2017, the Company had not yet achieved profitable operations, had incurred a loss and deficit of \$2,346,298 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 positive 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 information 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 startup and growth information technology companies. Cranium provides committed space to startup and growth IT 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 information 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 1900, 520 – 3rd Avenue S.W., Calgary, Alberta, T2P 0R3.

Fiscal 2018 First Quarter Summary:

- For the three month period ended August 31, 2017, the Company recorded a net loss and comprehensive loss of \$137,705 or \$0.01 loss per share compared to a net loss and comprehensive loss of \$216,406 or \$0.01 loss per share for the three month period ended August 31, 2016.
- For the three month period ended August 31, 2017, the Company recorded net revenues of \$92,220 compared to \$75,982 for the three month period ended August 31, 2016, an increase of \$16,238.
- As at August 31, 2017, the Company had total assets of \$831,068 (May 31, 2017 - \$1,007,842) and working capital of \$183,643 (May 31, 2017 - \$225,423).

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 while its secondary business provides software manufacturing rental facilities to information technology start-up companies on a month-to-month basis.

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. The Company 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 condensed interim consolidated 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 August 31, 2017, the Company recorded a net loss and comprehensive loss of \$137,705 or \$0.01 per share, as compared to a net loss and comprehensive loss of \$216,406 or \$0.01 per share for the three month period ended August 31, 2016. Revenues increased from \$75,982 for the three month

period ended August 31, 2016 to \$92,220 during the current three month period, an increase of \$16,238. This increase is generally due to an overall increase in co-location and cloud services and software manufacturing facility rental revenues as compared to the prior period. Total expenses for the three month period ended August 31, 2017 were \$229,925 as compared to \$292,388 for the three month period ended August 31, 2016. Significant changes in general and administrative expenses for the three month period ended August 31, 2017 include the following:

- a) Amortization of intangible assets, equipment and leasehold improvements totaling \$76,147 as compared to \$86,183 for the three month period ended August 31, 2016. Amortization of \$45,873 related to intangible assets was recorded which have now been fully expensed during the period ended August 31, 2017. Amortization is a non-cash expense.
- b) Financing costs of \$nil was recorded during the three month period ended August 31, 2017 compared to \$60,270 in finders' fees paid for the arrangement of \$1,023,000 convertible debenture during the three month period ended August 31, 2016.
- c) Interest and accretion in the amount of \$42,219 was paid and/or accrued on the \$1,023,000 convertible debenture during the three month period ended August 31, 2017 as compared to \$18,353 during the three month period ended August 31, 2016. Accretion in the amount of \$19,718 for the three month period ended August 31, 2017 (2016 - \$nil) was recorded. Accretion is a non-cash expense.
- d) Office facilities and administrative services increased from \$39,390 during the three month period ended August 31, 2016 to \$46,116 during the three month period ended August 31, 2017, an increase of \$6,726. The significant factors for this increase was due to increased activity and changes required to generate and accommodate more customers in the co-location and cloud services operations.
- e) Office and sundry costs increased from \$1,701 for the three month period ended August 31, 2016 to \$9,620 for the three month period ended August 31, 2017, an increase of \$7,919. These costs reflect the increased activity in its software manufacturing rental facility revenues.
- f) Property operating expenses decreased from \$46,457 for the three month period ended August 31, 2016 to \$35,640 for the three month period ended August 31, 2017, a decrease of \$10,817. These costs are associated to the overhead expenses relating to costs to run the Cranium and co-location and cloud services which we are continuing to work on minimizing without affecting service.
- g) Professional fees incurred during the three month period ended August 31, 2017 totaled \$14,094 (2016 - \$33,170), a decrease of \$19,076. This decrease was mainly due to the professional services required for the initiation and negotiations of the convertible debenture financing in the prior period.

The lower net loss for the three month period ended August 31, 2017 reflects an overall decrease in expenses which were associated to the convertible debenture financing that closed in the prior period and an increase in revenues during the current period.

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

	Q1 Aug. 31, 2017 \$	Q4 May 31, 2017 \$	Q3 Feb. 28, 2017 \$	Q2 Nov. 30, 2016 \$	Q1 Aug. 31, 2016 \$	Q4 May 31, 2016 \$	Q3 Feb. 29, 2016 \$	Q2 Nov. 30, 2015 \$
Total net revenues	92,220	91,920	71,954	74,107	75,892	71,421	46,571	41,676
Operating expenses	35,640	37,248	44,270	28,297	46,457	78,071	19,298	18,786
Administrative expenses	118,138	75,851	132,243	111,024	159,748	47,768	78,739	98,952
Amortization	76,147	130,560	86,156	83,727	86,183	73,204	63,054	64,877
Net loss	137,705	112,175	190,717	148,941	216,406	127,622	114,520	140,939
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 fiscal 2018, the Company amortized \$45,873 related to intangible assets which have now been fully amortized during the period ended August 31, 2017. This is a non-cash expense.

During the fourth quarter of 2017, the Company incurred \$75,851 in administrative costs which included reclassifying financing costs expensed in the first quarter that were associated with the convertible debenture financing by decreasing the associated liability.

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, 2016 and 2017, the Company amortized intangible assets acquired with the acquisitions of Atlas Cloud and The Cranium.

1.6 Liquidity

At August 31, 2017, the Company had working capital of \$183,643 (May 31, 2017 – \$225,483). Cash held at August 31, 2017 was \$155,449 compared with \$223,623 at May 31, 2017.

During the three month period ended August 31, 2017, the Company experienced cash outflows of \$68,174 (August 31, 2016 – \$284,038) from operating activities. The Company made its semi-annual interest payment of \$46,035 on its convertible debentures during the period ended August 31, 2017. Investing activities decreased cash by \$nil (three month period ended August 31, 2016 – \$64,394). These cash outflows were incurred for the purchase and installation of equipment required for its co-location and cloud services operations in the prior period. There were no financing activities in the current three month period. Financing activities provided net proceeds of \$823,000 for the convertible debenture financing and repayment of \$200,000 of short-term loans in the prior period. Overall, cash decreased by \$68,174 for the three month ended August 31, 2017, as compared to an increase of \$474,568 in the prior three month period ended August 31, 2016.

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

	< 1 year \$	1 – 3 years \$	Total \$
Accounts payable and accrued liabilities	37,974	-	37,974
Deferred revenues	264	-	264
Convertible debentures	-	848,518	848,518
	<u>38,238</u>	<u>848,518</u>	<u>886,756</u>

Management expects to add further co-location and cloud services customers in the coming months. During the three month period ended August 31, 2017, the Company recorded co-location and cloud services revenue of \$48,637 as compared to \$39,707 in the prior period. Software manufacturing rental facilities revenue was \$46,490 as compared to \$36,275 for the three month period ended August 31, 2016. Management will continue to develop its co-location and cloud services 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 August 31, 2017, the Company has cash of \$155,449 (May 31, 2017 - \$223,623). The current monthly "burn" rate for operating, general and administrative expenses is approximately \$45,000. The Company is currently generating revenues of approximately \$30,000 per month which management is actively pursuing new customers to increase revenues. 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 three month period ended August 31, 2017, the Company incurred \$9,000 (2016 - \$9,000) for office facilities and administrative services to Fred Stearman, President, CEO and a director of the Company.
- b) During the three month period ended August 31, 2017, the Company incurred \$9,000 (2016 - \$9,000) for property operating expenses to Fred Stearman, President, CEO and a director of the Company.
- c) During the three month period ended August 31, 2017, the Company incurred \$nil (2016 - \$20,064) for accounting fees to a company controlled by Laurie Sadler, CFO and a director of the Company.
- d) As of August 31, 2017, a director was owed a total of \$20,311 (May 31, 2017 - \$23,063) of which \$20,000 is included in the convertible debentures payable and \$311 accrued interest which is included in accounts payable and accrued liabilities. During the three month period ended August 31, 2017, \$450 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:

	Three Month Period Ended	
	August 31,	
	2017	2016
Management compensation	\$ 18,000	\$ 18,000
Professional fees	\$ Nil	\$ 20,064
Share-based payments	\$ Nil	\$ Nil

1.10 First Quarter

First quarter financial results do not differ significantly from prior periods.

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 preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. 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.

Information about critical accounting judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim consolidated financial statements within the next financial year are discussed below:

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.

d) Deferred income taxes

The Company recognizes the deferred tax benefit related to deferred income and resource 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 income and resource tax assets.

1.13 Changes in Accounting Policies including Initial Adoption

Standards issued but not yet effective up to the date of issuance of the Company's condensed interim consolidated financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date.

(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 contract based 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.

These amendments should be applied prospectively for annual periods beginning on or after January 1, 2016, 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.

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 condensed interim 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. *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 amounts 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 August 31, 2017 and May 31, 2017, the Company’s aging of accounts receivables was as follows:

	Current	31 – 60 days	61 – 90 days	91 days +	Total
August 31, 2017	\$ 12,932	\$ -	\$ 2,066	\$ 45,095	\$ 60,093
May 31, 2017	\$ 21,642	\$ 17,622	\$ 9,793	\$ 45,493	\$ 94,550

Aging of account receivable to August 31, 2017 indicated that the Company’s credit conditions may have deteriorated. This could in turn cause pressure on the Company’s liquidity.

b. *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 August 31, 2017, the Company had a cash balance of \$155,449 to settle current liabilities of \$37,974. The Company is exposed to liquidity risk.

c. *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.

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:

	Level	August 31, 2017		May 31, 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	1	\$ 155,449	\$ 155,449	\$ 223,484	\$ 223,484
Convertible debentures	3	\$ 848,518	\$ 848,518	\$ 828,800	\$ 828,800

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, 2016	16,908,333	1,938,801
Expiry of finder's warrant for private placement	-	17,067
Balance, May 31, 2017	16,908,833	\$ 1,955,868
No transactions	-	-
Balance, August 31, 2017 and the date of this report	16,908,833	\$ 1,955,868

During the year ended May 31, 2017, the Company 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. During the three month period ended August 31, 2017, the Company released 750,000 common shares held in escrow to leave nil remaining.

Share Purchase Warrants

The following share purchase warrants were outstanding at August 31, 2017 and the date of this report:

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

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 August 31, 2017 and the date of this report:

NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
<u>1,100,000</u>	\$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 August 31, 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 August 31, 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 somewhat 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. Our objective is to bring on additional co-location clients as our ability to offer redundant back-up power as part of our service is brought on-stream. However, if we are unable to achieve these objectives and we do not begin to produce any positive operating cash flow, the long term viability of the business may become in jeopardy.

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* – over the past three years, the Company 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 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.

"Frederick W. Stearman"

President, CEO and Director
October 18, 2017