Uniserve Communications Corporation
Management's Discussion and Analysis
November 30, 2015

January 28, 2016

Overview

The following discussion of results contains information relevant to the operations of Uniserve Communications Corporation ("the Company" or "Uniserve") as at the date of issuance of these statements. Unless otherwise stated, information is current up to the report date, all amounts are stated in Canadian dollars, and results have been recorded and presented in accordance with International Financial Reporting Standards ("IFRS").

The following should also be read in conjunction with the unaudited condensed interim consolidated financial statements ("financial statements") for the six months ended November 30, 2015 (first two quarters of the 2016 fiscal year), as well as the audited consolidated financial statements as at May 31, 2015 and the notes thereto. Any quarterly comparative figures presented will refer to the fiscal year, where '2015' refers to the six months ended November 30, 2014.

Additional information on the Company's products and services is available at the Company's website at www.uniserve.com and in the Company's public filings at www.sedar.com.

About the Business

Uniserve was incorporated on January 19, 1988 under the Company Act of British Columbia. The Company's principal business activities include the provisioning of internet access and telecommunications services primarily in B.C. and Alberta to over 10,000 retail customers and small businesses.

The Company focuses on providing complete data, telecommunication, and IT solutions to small businesses. The Company also provides security and alarm services.

The Company distinguishes itself from competitors by being a specialist across a wide array of product and services allowing customers to have a single point of contact for all their data, telecommunications, and IT requirements. Bundling various products and services helps lock-in customers, making it difficult to switch providers, and thus helping reduce customer churn.

Overall Business Outlook

In the first quarter of the 2016 fiscal year, the Company updated all of its branding, website, and marketing materials. The Company continued its growth strategy in the second quarter by shifting its focus on the development of its managed services offerings by incorporating the latest state-of-the-art hardware and software solutions into its overall solutions package, backed by support from expert professionals in the IT industry.

Managed services offerings include guaranteed 24/7 high speed internet connectivity, secure systems by way of automatic backups and industry leading firewall solutions, as well as the unique ability to offer site surveillance services.

The managed services offerings are a means for the Company to continue diversifying its customer and revenue base and to shift its profile from a traditional telecommunications company to a robust IT company. While data and telecommunications services form the majority of the Company's revenue base, the Company's management believes its future success will be dependent on the success of its managed services platform.

The Company announced the launch of its full suite of managed IT services in mid-December, and has signed multiple contracts to begin delivering these services immediately.

Over the past year, the Company had worked towards being able to provide Internet Protocol Television (IPTV) services to residential customers by the end of the 2016 fiscal year. The Company has decided to delay the launch of this product while it explores alternative methods of service delivery, which may include re-selling services, rather than developing its own offering.

Second quarter results were below the Company's expectations, partially due to the customer churn of its existing services, and its focus on launching new products, but expects to report revenue growth in the third quarter due to the new managed services contracts signed.

The Company also continued to improve its financial structure by reducing its working capital deficiency during the last six months as a result of restructuring several of its debts, and expects to announce further restructuring agreements with debt holders in the next quarter.

Going Concern

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. For the six months ended November 30, 2015 the Company had a net loss of $637,530 (2015: $608,404 loss). As at November 30, 2015, the Company had a working capital deficiency of $3,216,619 (May 31, 2015: $3,852,352).

The Company's ability to continue as a going concern is dependent in part upon the Company's ability to generate sufficient cash flow from operations and to obtain additional equity or debt financing in the near term to continue to meet its obligations as they come due.

The Company has taken steps to meet its financial obligations including carefully scrutinizing its capital and discretionary spending, evaluating the Company's workforce, investing in future growth to ensure long-term competitiveness and viability, and restructuring several debts. The Company continues to pursue new financing activities that will allow it to focus on new business initiatives.

The Company's ability to meet its financial obligations depends on a number of factors, some of which are beyond its control. These include general global economic credit and capital market conditions, the demand for, and the selling price of its products. There is no assurance that the expected cash flows from operations and the other steps being taken will allow the Company to meet its obligations as they become due.

Current weak global economic conditions make access to the credit and capital markets difficult for the Company, which may compromise its ability to obtain suitable financing. The Company may not generate sufficient funds from operations to meet all of its financial obligations and may need to generate funds from other sources to do so.

The Company's existing financial obligations will constrain its capital spending and that may have an adverse effect on its operations. The Company's debt levels will also limit its ability to expand its operations or make other investments that would enhance its competitiveness.

Accordingly, there are risks that the steps described above will not be successful in allowing the Company to meet its obligations, which may require the Company to sell core assets or raise debt or equity capital, which management believes would enable it to satisfy its obligations as they become due. However, these actions may have a material adverse effect on the Company's business and on the market prices of its equity securities.

If the Company is unable to generate positive cash flows or obtain adequate financing, the Company will need to slow operations. This indicates the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which could differ from the going concern basis.

Non-IFRS Financial Measures

The Company's continuous disclosure documents provide discussion and analysis of non-IFRS financial measures. These financial measures do not have standard definitions prescribed by IFRS and therefore may not be comparable to similar measures disclosed by other companies. The Company utilizes these measures in making operating decisions and assessing its performance. Certain investors, analysts and others, utilize these measures in assessing the Company's financial performance and as an indicator of its ability to service debt. These non-IFRS financial measures have not been presented as an alternative to net income or any other measure of performance required by IFRS.

The following describes the Company's use of non-IFRS financial measures and provides a reconciliation of the non-IFRS financial measures to the most comparable IFRS financial measures.

EBITDA

The Company defines EBITDA as earnings before interest, foreign exchange, income taxes, amortization of capital and intangible assets, stock-based compensation, write-down of goodwill and intangible assets, executive variable compensation and other non-cash financing related charges.

EBITDA, among other measures, is used by the Company to assess the operating performance of its ongoing businesses without the effects of amortization expense and other items.

The Company believes that certain investors and analysts use EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement in the telecommunications industry. EBITDA allows the Company to compare its operating performance on a consistent basis. The most comparable IFRS financial measure is net income (loss).

For the three months ended November 30, 2015, EBITDA was a loss of $188,000 (2015 - $33,000 earnings; quarter ended August 31, 2015 - $26,000 loss). The decline in EBITDA from the previous quarter was primarily due to declines in high margin revenues, such as the Company's security division, overall customer churn on its internet services, increases in costs due to a weakening Canadian dollar, as well as the investments it made towards future growth.

A summary of the Company's financial results by quarter is presented in the table below. Please note that some figures may have been reclassified or adjusted to conform to the present year's presentation.

In thousands (000's)	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2
	$	$	$	$	$	$	$	$
Revenues	1,607	1,616	1,569	1,574	1,531	1,551	1,506	1,550
Gross Margin	757	643	754	744	751	869	778	739
Operations and service delivery costs	656	869	690	628	588	620	685	794
Sales & marketing	157	205	97	83	72	79	119	132
Amortization	195	208	115	117	120	113	80	86
Interest expense & Foreign Exchange	186	3	199	193	(144)	314	107	151
Other expenses (income)	(2)	1,881	(1)	(14)	166	(517)	-	-
Net income (loss) before taxes	**(439)**	**1,239**	**(346)**	**(263)**	**(51)**	**260**	**(213)**	**(425)**
Net loss per share	(0.05)	0.14	(0.03)	(0.02)	(0.00)	0.02	(0.01)	(0.01)

The table below reconciles net income (loss), relating to continuing operations to EBITDA on a quarterly basis:

In thousands (000's)	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2
	$	$	$	$	$	$	$	$
Net income (loss) before taxes	(439)	1,239	(346)	(263)	(51)	260	(213)	(425)
Amortization expense[1]	195	208	115	117	120	113	80	86
Impairment of property and equipment	-	98	-	-	-	-	-	-
Other expenses (income)	(2)	-	(1)	(14)	46	(517)	-	-
Gain on long term debt and preferred shares	-	(1,828)	-	-	-	-	-	-
Proceeds from Settlement of Lawsuit		(150)	-	-	120	-	-	-
Interest expense & Foreign Exchange[2]	186	3	199	193	(144)	314	107	151
EBITDA[3]	**(60)**	**(430)**	**(33)**	**33**	**91**	**169**	**(26)**	**(188)**

(1) Amounts include amortization of property and equipment and intangible assets
(2) Amounts include dividends and accrued dividends on the convertible preferred shares, imputed interest on the notes payable and interest on capital leases.
(3) Some figures may have been reclassified from prior periods for presentation purposes.

Second Quarter Ending November 30, 2015

Revenues

Overall revenues increased $44,000 (3%) from the prior quarter despite declines in its internet and security service revenues.

Churn on broadband internet services, legacy dial-up services, and loss of fibre customers accounted for a $30,000 decline in revenues. Customer churn is primarily due to price competition within the industry, as the Company tries to diversify its offerings in order to minimize the effects of competing against its large competitors.

The security division saw a $37,000 decline in revenues, as the second quarter lacked one-off projects in this division. The Company will decide whether to pursue growth in this division in Alberta in the third quarter or to focus its efforts on its other offerings.

The declines in internet and security services revenues were offset by increased revenues in hardware and technical support (increase of $105,000 from the prior quarter).

The Company signed new business deals in the second quarter and expects to begin delivering services on these contracts in the third quarter.

Gross margin

Gross margin declined $39,000 from the prior quarter primarily due to the Company receiving an unexpected one-time electricity/hydro bill for its data centre facilities in the quarter ($33,000), which was primarily recognized against cost of sales.

In addition, the Company suffered losses of higher margin customers, combined with sales of lower margin hardware, which resulted in a decline in overall gross margin, despite an increase in revenues.

While the Company expects gross margin as a percentage of sales to reach 50% in the next quarter, due to its new product offerings, it also has to monitor and be aware of the declining Canadian dollar, as a further weakening dollar will lead to increases in costs, and hurt the Company's competitiveness in its home market.

Operations and service delivery costs

Overhead costs were $794,000 for the quarter, an increase of ($109,000) from the prior quarter. The increase from the last quarter is due to a variety of factors, including improvements in internal infrastructure, hiring skilled personnel to provide a wider range of products and services, as well as improvements to existing services to customers including 24-hour help desk coverage and managed services.

Sales and marketing

Sales and marketing expenses increased $13,000, as the company continued its marketing initiatives, including the production of more informative content featured on the Company's website, continued growth in its online presence, including social media.

Amortization

Amortization expenses increased $6,000 (7.5%) from the first quarter of 2016, which is considered a normal increase for the Company, as it purchased data and telecommunications hardware for customers.

Interest expense

Interest expense for the second quarter of 2016 was $151,000, an increase of $34,000 from the prior quarter. In the first quarter, the Company restructured several debts, where interest was forgiven by debtholders, leading to a lower interest charge for that quarter.

In the third quarter, the Company expects to continue its efforts in restructuring certain debts. A significant portion of outstanding debts had interest waived up to December 31, 2015. With interest beginning to accrue again in January, interest expense is expected to increase, but should be offset by other restructured debts.

Liquidity and capital resources

Working capital and liquidity

As at November 30, 2015, the Company had a working capital deficiency of $3,217,000 (May 31, 2015 - $3,852,000). The Company has directed its efforts over the past two years towards reducing the deficiency, and is continuing to do so going forward. These efforts include settling debts with Common Shares of the Company and improving operating results. The Company's focus on improving its financial structure over the last two years has resulted in reducing the working capital deficiency by more than 50% over that time period.

Preferred shares

The preferred shares are redeemable at the option of the holder on or after the fifth anniversary of the date of issuance (which ranged from May to December 2007). As the Company may be required to repurchase the preferred shares for cash in the upcoming fiscal year, they have been classified as short-term debt with the value of the conversion right included in other equity instruments (see "Outstanding Shares Data" in the Financial Statements).

As at November 30, 2015, the current debt portion of the convertible preferred shares is $273,000 (2014 - $273,000) and accrued dividends in arrears owing to preferred shareholders are $118,300 (May 31, 2015 - $107,000).

Further details are contained in Note 10 of the Financial Statements.

Promissory Notes

The Promissory Notes ("Notes") were issued as of July 1, 2013 and carry a four-year term with a 5% annual interest rate. The Notes can be converted to shares at the option of the holder for $0.50 per share, or the Company can force conversion into common shares should the Company's share price trade at $1.00 or higher for a ninety day period.

The Company and several Note holders agreed to convert interest accrued and owing on the Notes up to December 31, 2014, and one-third of the principal outstanding, into common shares of the Company. Details on the conversion are provided in Note 10 of the Financial Statements.

As at November 30, 2015, a long-term liability of $1,550,000 (May 31, 2015 - $1,448,000) remains for the Promissory Notes. The Company has recorded a liability of $116,000 (May 31, 2015 - $67,000) in current liabilities in relation to the interest owing on the Promissory Notes.

Further details are contained in Note 10 of the Financial Statements.

Summary

Over the two quarters, the Company has continued its implementation of its growth strategy in various business areas including improved customer service, new product and service offerings, updated branding, increased marketing efforts, and enhancing its internal infrastructure in order to increase future revenues.

As a result of implementing new initiatives, the Company saw declines in its financial performance during the first two quarters. The Company's revenues did rebound from the first quarter, showing an increase of $44,000, but further growth is expected for the third and fourth quarters.

The Company will continue its efforts from the past two years in improving its financial structure by lessening its working capital deficit and other liabilities through retiring or converting debt into equity instruments.

The Company believes that it will be able to generate sufficient cash flow from operations, combined with its ability to obtain financing from related parties, existing shareholders and other sources; it will have sufficient resources to carry on operations in the short term and in the long term to pursue its business plan.

Contractual obligations and commitments

Most of the Company's services fall under tariffs set and regulated by the CRTC, which reduced the need for long term contracts for pricing and provision of these services.

The Company leases office space and equipment under non-cancelable operating leases expiring in various years through 2018 and also leases office furniture and computer hardware and software under non-cancelable capital leases. Minimum commitments under non-cancelable leases for each fiscal year are as follows:

	2016	2017	2018	2019	Total
	$	$	$	$	$
Finance Leases	54,704	110,211	59,063	13,557	237,535
Operating Leases	123,000	42,500	-	-	165,500
	177,704	**152,711**	**59,063**	**13,557**	**403,035**

Off-balance Sheet Arrangements

The Company has not engaged in any off-balance sheet arrangements.

Related Party Transactions

Key management compensation:

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's executive team. Key management personnel compensation for the six months ended November 30, 2015 including short-term benefits totaled $149,494 (2015 - $87,815).

Transactions with related parties:

(a) Operating Lease – Vancouver Office Rent

For the six months ended November 30, 2015, the Company recognized rent expenses of $84,792 (2015 - $75,000) related to this agreement, and an additional $12,645 (2015 - $6,553) to rent expense for parking fees. Lease inducement of $24,325 (2015 - $24,325) was recognized as a reduction to rent expense.

(b) Operating Lease – Edmonton Office Rent

For the six months ended November 30, 2015, the Company recognized rent expense of $9,000 relating to this rental agreement.

(c) Operating Lease – Vancouver Data Centre

During the six months ended November 30, 2015, the Company finalized the lease agreement, with the lease term expiring September 30, 2017, with a gross monthly rent of $7,500, not including any hydro surcharges or other operating expenses.

The Company recognized $42,000 of expenses to cost of sales during the six months ended November 30, 2015, in addition to a hydro surcharge of $38,310, which includes a retroactively billed portion for the five months ended May 31, 2015.

(d) Operating Lease – Vancouver Office Space

The agreement ended June 30, 2015, with the Company recognizing $2,005 of rent expense for the six months ended November 30, 2015.

(e) Loans Payable

The Company has various loans payable to related parties. Amounts outstanding in connection with these loans are as follows:

	November 30, 2015	May 31, 2015
	$	$
Loan amounts owed to a company controlled by a director and significant shareholder	**912,038**	810,594
Loan amounts owed to other directors	**95,435**	45,400
	1,007,472	855,994

Further details on these loans are disclosed in Note 8 of the Financial Statements.

Included within interest expense are the following amounts paid (or accrued) to related parties in connection with the various related party loans:

	November 30, 2015	May 31, 2015
	$	$
Interest paid or accrued to a company controlled by a director and significant shareholder	**20,676**	140,197
Interest paid or accrued to other directors	**1,099**	9,000
	21,774	149,197

(f) Revenues

Included in revenue for the year six months ended November 30, 2015 are sales totaling $124,800 (2015 - $78,857) in hardware and other services sold to companies controlled by various directors of the Company.

Outstanding shares data

Common shares
Set out below is the outstanding share data for the Company as of the report date:

	Number Outstanding
Common Shares	31,940,385
Option to Purchase Common Shares	-
Share Purchase Warrants	18,853,000

Convertible Preferred shares and Promissory Notes

During the six months ended November 30, 2015, no interest payments were made.

As of November 30, 2015, the Company has the following liabilities related to the Preferred Shares and Notes:

- Preferred Shares: $273,000 (May 31, 2015: $273,000)
- Dividends on Preferred Shares in arrears: $118,300 (May 31, 2015: $107,380)
- Notes: $1,549,571 (May 31, 2015: $1,448,073)
- Interest payable on Notes: $115,721 (May 31, 2015: $67,252)

For further details and transactions, see note 10 of the Financial Statements.

Critical Accounting Estimates

These interim consolidated financial statements were prepared using the same IFRS accounting policies and methods as those disclosed in Notes 3 and 4 and used in the Company's 2015 financial statements for the year ended May 31, 2015.

Caution Concerning Forward-looking Statements[1,2]

Certain statements contained in this MD&A constitute forward-looking statements. In addition, other oral or written statements which constitute forward-looking statements may be made from time to time by or on behalf of Uniserve Communications Corporation. These forward-looking statements relate to the future financial condition, results of operations, or business of Uniserve. These statements may be based on current expectations and estimates about the markets in which Uniserve operates and management's beliefs and assumptions regarding these markets. These statements are subject to risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. The results or events predicted in the forward-looking statements contained in this MD&A may differ materially from actual results or events. Forward-looking statements contained in this MD&A represent Uniserve's expectations and intentions as of the date hereof. Uniserve disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

In particular, forward-looking statements do not reflect the potential impact of any mergers, acquisitions, divestitures, or other business combinations, or other transactions that may be announced. For further information – refer to the Risks and Uncertainties section at the end of this report. Investors are cautioned against attributing undue certainty to forward-looking statements.

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[1] In some cases, forward-looking statements may be identified by words such as "anticipate", "could', "seek", "may", "intend", "will", and similar expressions.

[2] Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of the company's future prospects and make informed investment decisions.