

Condensed Interim Consolidated Financial Statements of

Uniserve Communications Corporation

For the nine months ended February 29, 2016 and February 28, 2015

(Expressed in Canadian dollars)

Uniserve Communications Corporation

Nine months ended February 29, 2016 and February 28, 2015

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NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The Company's external auditors, Dale Matheson Carr-Hilton Labonte LLP, have not performed a review of these financial statements.

signed "John Dobson"

John Dobson
Chief Executive Officer

signed "Stephen Plant"

Stephen Plant
Chief Financial Officer

April 29, 2016

Uniserve Communications Corporation

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

	Note	Three Months Ended		Year To Date	
		February 29 and 28		February 29 and 28	
		2016	2015	2016	2015
		\$	\$	\$	\$
Revenue		1,624,190	1,531,282	4,680,024	4,673,912
Cost of Revenues		809,613	780,455	2,348,867	2,424,276
		814,577	750,827	2,331,157	2,249,636
Expenses					
Operations and Service Delivery Expenses		772,845	587,676	2,251,725	1,904,740
Sales and Marketing		124,914	71,727	375,996	252,982
Amortization of Intangible Assets	6	-	-	-	-
Amortization of Property and Equipment	5	93,207	120,105	259,011	352,279
		990,966	779,508	2,886,732	2,510,001
Operating Income (Loss)		(176,389)	(28,681)	(555,575)	(260,365)
Other Expenses (Income)					
Finance Charges	10	15,061	(142,006)	263,708	249,863
Foreign Exchange		(2,667)	(2,222)	7,030	2,807
Gain on Settlement of Debts	9, 10, 11	(555,232)	166,310	(555,232)	146,131
		(542,838)	22,082	(284,494)	398,801
Net Income (Loss) and Comprehensive Income (Loss)		366,449	(50,763)	(271,081)	(659,166)
Basic and Diluted Income (Loss) Per Share		\$ 0.01	\$ (0.01)	\$ (0.01)	\$ (0.06)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted		32,300,385	10,145,728	27,208,597	10,145,728

See accompanying notes

Uniserve Communications Corporation

Consolidated Balance Sheets

(Expressed in Canadian dollars)

	Note	February 29, 2016	May 31, 2015
		\$	\$
Assets			
Current Assets			
Cash		75,184	137,844
Trade and Other Receivables	14a	284,101	182,190
Inventories		58,231	27,039
Prepaid Expenses		140,038	94,166
		557,554	441,239
Property and Equipment	5	1,020,656	374,337
Intangible Assets	6	103,648	124,524
		1,681,858	940,100
Liabilities and Shareholders' Deficit			
Current Liabilities			
Trade Payables and Accrued Liabilities		1,756,521	1,960,401
Accrued Dividends Payable On Preferred Shares	10	123,760	107,380
Convertible Debenture - Current Portion	9	413,125	675,000
Capital Lease Obligations - Current Portion	12	87,868	71,126
Convertible Preferred Shares	10	273,000	273,000
Lease Inducement - Current Portion	7a	48,649	48,649
Deferred Revenue		133,487	130,849
Interest Payable On Promissory Notes	10	45,831	67,252
Loans Payable - Current Portion	8	593,889	959,934
		3,476,130	4,293,591
Long-Term Liabilities			
Lease Inducement	7a	16,216	52,703
Convertible Debenture	9	75,000	-
Promissory Notes Payable	10	1,411,484	1,448,073
Capital Lease Obligations	12	78,851	101,080
Loans Payable	8	1,179,408	9,008
		6,237,089	5,904,455
Shareholders' Deficit			
Issued Capital	11	18,813,786	15,998,901
Subscription Received In Advance	11b	-	456,100
Equity Reserves	11e	2,897,336	4,575,915
Deficit		(26,266,353)	(25,995,271)
		(4,555,231)	(4,964,355)
		1,681,858	940,100
Nature of operations and going concern	1		
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Approved on behalf of the Board:

Signed "John Dobson"

Director

Signed by "Stephen Plant"

Director

See accompanying notes

Uniserve Communications Corporation

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Note	Nine Months Ended	
		February 29, 2016	February 28, 2015
		\$	\$
Operating Activities			
Net Income (Loss)		(271,081)	(659,166)
Items not involving Cash			
Amortization of Property and Equipment		259,011	352,279
Amortization of Lease Inducement		(36,487)	(36,487)
Reclass of intangible assets to cost of revenues		36,723	-
Non-cash interest expense		(36,589)	(185,741)
Changes in working capital and other items	16	(385,258)	(315,497)
Net cash used in operating activities		(529,555)	(844,612)
Investing Activities			
New product development		(15,848)	(76,189)
Purchase of property and equipment		(905,330)	(53,633)
Net cash used in investing activities		(921,178)	(129,822)
Financing Activities			
Net proceeds from issuance of debt		804,355	235,446
Repayment of capital lease obligations		(5,487)	78,334
Net proceeds from issuance of common shares		1,232,180	1,117,936
Subscriptions received in advance		(456,100)	(117,500)
Issuance of convertible debentures		183,125	-
Repayment of convertible debentures		(370,000)	(250,000)
Net cash provided by financing activities		1,388,073	1,064,216
Increase in cash		(62,660)	(57,025)
Cash at beginning of period		137,844	99,211
Cash at end of period		75,184	42,186

Supplemental cash flow information

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See accompanying notes

Uniserve Communications Corporation

Consolidated Statement of Changes in Shareholders' Deficit

(Expressed in Canadian dollars)

	Note	Issued capital		Subscription	Equity	Total	
		Shares	Amount	Received In	Reserves	Deficit	Shareholders'
			\$	\$	\$	\$	\$
Balance, May 31, 2014		8,773,809	15,311,710	117,500	4,792,958	(25,724,840)	(5,502,672)
Issuance of Share Capital for Cash	11b	1,200,000	300,000				300,000
Issuance of Share Capital for Debt	11b	3,113,753	869,549				869,549
Issuance of Share Purchase Warrants	11c		(71,613)		71,613		-
Obligation to issue Shares	11b			(117,500)			(117,500)
Promissory Notes Conversion Rights	10				(218,419)		(218,419)
Net Loss and Comprehensive Loss						(659,166)	(659,166)
Balance, February 28, 2015		13,087,562	16,409,646	-	4,646,152	(26,384,006)	(5,328,208)
Obligation to issue Shares	11b	-	-	456,100	-	-	456,100
Promissory Notes Conversion Rights	11c	-	-	-	25,620	131,111	156,731
Share Capital for Debt FMV correction		-	(506,602)	-	-	-	(506,602)
Cancellation of Fractional Shares	11b	(177)	-	-	-	-	-
Expiry of Share Purchase Warrants		-	95,857	-	(95,857)	-	-
Net Income and Comprehensive Income		-	-	-	-	257,624	257,624
Balance, May 31, 2015		13,087,385	15,998,901	456,100	4,575,915	(25,995,271)	(4,964,355)
Issuance of Share Capital for Cash	11b	19,213,000	1,232,180	-	-	-	1,232,180
Issuance of Share Purchase Warrants	11b	-	(522,207)	-	522,207	-	-
Obligation to issue Shares	11b	-	-	(456,100)	-	-	(456,100)
Promissory Notes Conversion Rights	10	-	-	-	(95,874)	-	(95,874)
Expiry of Share Purchase Warrants		-	2,104,912	-	(2,104,912)	-	-
Net Loss and Comprehensive Loss		-	-	-	-	(271,081)	(271,081)
Balance, February 29, 2016		32,300,385	18,813,786	-	2,897,336	(26,266,353)	(4,555,231)

See accompanying notes

During the year ended May 31, 2015, the Company completed a share consolidation. See note 11(a) for further details.

Uniserve Communications Corporation

Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

1. Nature of Operations and Going Concern

Uniserve Communications Corporation (“the Company”) was incorporated on January 19, 1988 under the Company Act of British Columbia. The Company’s principal business activity is the provision of Internet access and telecommunications services primarily in B.C. and Alberta, which represents a single operating segment. The Company also offers commercial physical security services in Alberta.

The Company is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol USS. The Company’s head office is located at Suite 330 – 333 Terminal Avenue, Vancouver, British Columbia, Canada, V6A 4C1.

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 nine months ended February 29, 2016 the Company had a net loss of \$271,081 (2015 - \$659,166 loss). As at February 29, 2016, the Company had a working capital deficiency of \$2,918,576 (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 assist it in meeting its financial obligations, including raising capital through private placements, evaluating the Company’s workforce, and restructuring its 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, and the demand for and 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 is risk 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. Management believes this 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 further slow operations. The existence of a material uncertainty may cast significant 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 significantly from the going concern basis.

2. Statement of Compliance

The Company’s interim consolidated financial statements are prepared using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended May 31, 2015, and are in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), and in compliance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”).

Uniserve Communications Corporation

Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

Financial statement preparation, in accordance with IAS 34, requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where significant assumptions and estimates are made, are disclosed in Note 2 of the Company's consolidated financial statements for the year ended May 31, 2015.

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in the Company's annual audited financial statements; thus, these consolidated interim financial statements are referred to as condensed and should be read in conjunction with the Company's audited financial statements for the year ended May 31, 2015 which were prepared in accordance with IFRS.

3. Significant Accounting Policies

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

4. Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not effective for the nine months ended February 29, 2016, and therefore have not been applied in preparing these financial statements. Standards issued but not yet effective, and which the Company believes are relevant to its operations are disclosed in the Company's financial statements for the year ended May 31, 2015.

5. Property and Equipment

	Equipment (\$)	Software (\$)	Leasehold Improvements (\$)	Total (\$)
Cost				
Balance May 31, 2014	6,356,928	820,598	225,184	7,402,710
Additions	145,179	-	-	145,179
Disposals	-	(12,529)	-	(12,529)
Balance May 31, 2015	6,502,107	808,069	225,184	7,535,360
Additions	865,077	17,991	22,264	905,332
Disposals	-	-	-	-
Balance February 29, 2016	7,367,182	826,060	247,448	8,440,690
Accumulated Depreciation				
Balance May 31, 2014	5,941,044	563,555	191,053	6,695,653
Depreciation Charge	210,830	243,471	11,069	465,370
Disposals	-	-	-	-
Balance May 31, 2015	6,151,874	807,026	202,123	7,161,023
Depreciation Charge	244,345	2,780	11,885	259,011
Disposals	-	-	-	-
Balance February 29, 2016	6,396,220	809,806	214,007	7,420,034
Net Book Value				
Balance May 31, 2015	350,233	1,043	23,061	374,337
Balance February 29, 2016	970,962	16,254	33,441	1,020,656

The cost of property under capital leases, (equipment and software) aggregated to \$268,600 as at February 29, 2016 (May 2015 - \$223,300). During the nine months ended February 29, 2016, the Company financed two additional leases (2014 – one). Details of capital lease obligations are outlined in Note 12.

Uniserve Communications Corporation

Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

6. Intangible Assets

	Product Development Costs (\$)	Deferred Finance Costs (\$)	Total (\$)
Cost			
Balance May 31, 2014	82,304	477,110	559,414
Additions	73,060	-	73,060
Disposals/Write-offs	(20,179)	-	(20,179)
Balance May 31, 2015	135,185	477,110	612,295
Additions	15,848	-	15,848
Reclassified to Cost of Sales	(36,723)	-	(36,723)
Disposals/Write-offs	(10,661)	(477,110)	(487,771)
Balance February 29, 2016	103,648	-	103,649
Accumulated Depreciation			
Balance May 31, 2014	10,661	477,110	487,771
Depreciation Charge	-	-	-
Balance May 31, 2015	10,661	477,110	487,771
Depreciation Charge	-	-	-
Disposals/Write-offs	(10,661)	(477,110)	(487,771)
Balance February 29, 2016	-	-	-
Net Book Value			
Balance May 31, 2015	124,524	-	124,524
Balance February 29, 2016	103,648	-	103,648

Intangible assets include fully depreciated customer lists, which total \$11,913,110. During the nine months ended February 29, 2016, the Company wrote off \$487,771 of fully depreciated intangible assets. This has no effect on the Company's financial results.

7. 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 nine months ended February 29, 2016 including short-term benefits totaled \$224,436 (2015 - \$118,434).

Transactions with related parties:

- (a) Operating Lease – Vancouver Office Rent

For the nine months ended February 29, 2016, the Company recognized rent expenses of \$112,500 (2015 - \$112,500) related to this agreement, and an additional \$9,793 of rental expenses related to a temporary lease of additional office space (replacing the agreement from note 7(d) below), which spanned five months from July 1, 2015 to November 30, 2015, at a gross monthly rent of \$1,958.

The Company also recognized an additional \$20,207 (2015 - \$9,675) to rent expense for parking fees. Lease inducement of \$36,487 (2015 - \$36,487) was recognized as a reduction to rent expense.

Uniserve Communications Corporation

Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

(b) Operating Lease – Edmonton Office Rent

For the nine months ended February 29, 2016, the Company recognized rent expense of \$13,500 relating to this rental agreement.

(c) Operating Lease – Vancouver Data Centre

During the nine months ended February 29, 2016, the Company finalized the lease agreement, with the lease term expiring September 30, 2017, with a gross monthly rent of \$7,000, not including any hydro surcharges or other operating expenses. The Company has also leased additional space beginning December 1, 2015, with a gross monthly rent of \$7,095, with the agreement pending finalization.

The Company recognized \$84,286 to cost of sales and operating expenses during the nine months ended February 29, 2016 (2015 - \$28,000), in addition to a hydro surcharge of \$46,500, 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 nine months ended February 29, 2016.

(e) Loans Payable

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

	February 29, 2016	May 31, 2015
	\$	\$
Loan amounts owed to a company controlled by a director and significant shareholder	1,003,500	810,594
Loan amounts owed to other directors	88,638	45,400
	1,092,138	855,994

Further details on these loans are disclosed in Note 8.

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

	February 29, 2016	May 31, 2015
	\$	\$
Interest paid or accrued to a company controlled by a director and significant shareholder	49,626	140,197
Interest paid or accrued to other directors	4,244	9,000
	53,870	149,197

(f) Revenues

Included in revenue for the nine months ended February 29, 2016 are sales totaling \$192,135 (2015 - \$111,401) in hardware and other services sold to companies controlled by various directors of the Company.

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Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

8. Loans Payable

Loans payable are comprised of the following:

	Note	February 29, 2016	May 31, 2015
		\$	\$
Term Loan with Related Party	a	260,000	260,000
Demand Loan	b	100,000	100,000
Demand Loan with Related Party	c	-	25,400
Term Loan with Related Party	d	-	25,094
Term Loan with Related Party	e	-	32,000
Term Loan with Related Party	f	100,000	100,000
Vehicle Loan - Current Portion	g	4,122	3,940
Vehicle Loan - Long Term Portion	g	5,895	9,008
Demand Loan with Related Party	h	306,000	306,000
Term Loan with Related Party	i	-	20,000
Term Loan with Related Party	j	-	87,500
Equipment Loan - Current	k	122,682	-
Equipment Loan - Long Term	k	448,460	-
Term Loan with Related Party - Current	l	29,585	-
Term Loan with Related Party - Long Term	l	59,053	-
Term Loan with Related Party	m	337,500	-
Total Loans		1,773,297	968,942

Related party transactions: \$1,092,138 (May 31, 2015 - \$855,994) of total loans are due to related parties (see Note 7(e)). \$17,318 of interest payable on loans to related parties is included in trade payables and accrued liabilities.

- (a) On June 1, 2015, the Company further amended the loan agreement. The loan now bears interest at a rate of 8% per annum. In addition, all interest will be waived for a period of seven months. Interest accrual commenced January 1, 2016.

On September 16, 2015, the Company issued 2,500,000 share purchase Warrants, exercisable for a two year period at \$0.10 per share during year one and \$0.15 per share during year two to the date of expiry, in consideration for the interest waiver and interest rate reduction on the loans listed in notes 7(a), 7(f), and 7(h).

The loan is subject to a general security agreement charging the Company's cash, inventory, receivables and equipment.

During the nine months ended February 29, 2016, the Company accrued \$2,600 interest (2015 - \$23,400).

- (b) On June 1, 2015, the debtor agreed to waive nine months of accrued interest, as well as all future interest up to December 31, 2015. Interest accrual commenced January 1, 2016.

During the nine months ended February 29, 2016, the Company accrued \$2,000 interest (2015 - \$9,000).

- (c) On June 1, 2015, the Company and director agreed to waive all accrued interest to May 31, 2015 and waive any future interest from June 1, 2015 to December 31, 2015.

During the nine months ended February 29, 2016, the Company accrued no interest (2015 - \$4,500).

The Company paid the remainder of the loan by issuing 362,867 Common Shares of the Company at \$0.07 per share.

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Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

- (d) During the nine months ended February 29, 2016, the Company paid \$788 in interest (2015 - \$2,953). The Company has repaid the remaining balance on the loan in full.
- (e) During the nine months ended February 29, 2016, the Company paid \$2,240 in interest (2015 - \$18,667). The Company has repaid the remaining balance on the loan in full.
- (f) On June 1, 2015, the Company amended the loan agreement. The loan now bears interest at a rate of 8% per annum. In addition, all interest was waived for a period of seven months. Interest accrual commenced January 1, 2016.

On September 16, 2015, the Company issued 2,500,000 share purchase Warrants, exercisable for a two year period at \$0.10 per share during year one and \$0.15 per share during year two to the date of expiry, in consideration for the interest waiver and interest rate reduction on the loans listed in notes 7(a), 7(f), and 7(h).

During the nine months ended February 29, 2016, the Company accrued \$1,333 interest (2015 - \$9,000).

- (g) During the nine months ended February 29, 2016, the Company paid \$527 in interest (2015 - \$699).
- (h) On June 1, 2015, the Company amended the loan agreement. The loan now bears interest at a rate of 8% per annum. In addition, all interest was waived for a period of seven months. Interest accrual commenced January 1, 2016.

On September 16, 2015, the Company issued 2,500,000 share purchase Warrants, exercisable for a two year period at \$0.10 per share during year one and \$0.15 per share during year two to the date of expiry, in consideration for the interest waiver and interest rate reduction on the loans listed in notes 7(a), 7(f), and 7(h).

During the nine months ended February 29, 2016, the Company accrued \$4,080 interest (2015 - \$15,300).

- (i) The Company repaid this loan in full during the nine months ended February 29, 2016.
- (j) The Company repaid this loan in full during the nine months ended February 29, 2016.
- (k) On June 15, 2015, the Company financed asset purchases related to its data centre for \$750,000, with \$100,000 paid as a down payment to a related party, and the Company assuming a commercial loan for the remaining \$650,000.

The loan carries an annual interest rate of 4.22% amortized over 5 years, with monthly payments of \$12,034.

The related party will be paid an additional \$25,000 plus 200,000 common shares of the Company at the end of the term of the loan in consideration for providing the loan facility and remaining the guarantor of the loan during the term of the agreement.

During the nine months ended February 29, 2016, the Company paid \$17,413 in interest and accrued an additional \$7,350 of interest expense in consideration for the related party remaining as the guarantor of the loan.

- (l) On October 15, 2015, the Company borrowed \$97,650 from a director of the Company. The loan bears interest at a rate of 13.5% annually, and is repayable in monthly installments of \$3,314 up to October, 2018. During the nine months ended February 29, 2016, the Company paid \$4,244 in interest.
- (m) On January 4, 2016, the Company borrowed \$337,500 (\$325,000 loan and \$12,500 administration fee) from a related company controlled by a director and significant shareholder. The loan bears interest at a rate of 15% annually, and is repayable on demand. During the nine months ended February 29, 2016, the Company accrued \$8,438 in interest.

Uniserve Communications Corporation

Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

9. Convertible Debentures

Convertible Debentures are comprised as follows:

	Note	February 29, 2016	May 31, 2014
		\$	\$
Convertible debenture - related party	a	75,000	75,000
Convertible debenture	b	105,000	425,000
Convertible debenture	b	120,000	-
Convertible debenture - related party	c	188,125	175,000
Total Convertible Debentures		488,125	675,000

Related party transactions: \$263,125 of total convertible debentures are due to related parties. \$2,881 of interest payable to related parties is included in trade payables and accrued liabilities.

- (a) During the nine months ended February 29, 2016, the interest rate and due date of the debenture were amended. The interest rate will be 8% per annum, payable monthly. The first seven months' interest was waived. Interest began accruing January 1, 2016. The debenture is due June 1, 2017.

Subsequent to February 29, 2016, the Company repaid the balance in full.

- (b) During the nine months ended February 29, 2016, the interest rate and due date of the debenture were amended. The interest rate will be 12% per annum, payable monthly. The debenture is due June 1, 2016. The Company paid \$200,000 of the principal.

On August 12, 2015, \$120,000 of the debenture amount was transferred to a new agreement with a company controlled by the same debenture holder. Terms of the new debenture remain the same as the original debenture, with the interest rate at 12% per annum, payable monthly, and due June 1, 2016.

- (c) During the nine months ended February 29, 2016, the debenture was increased by \$50,000 and subsequently paid. In addition, \$13,125 of outstanding interest amounts were combined with the principal.

10. Convertible Preferred Shares and Promissory Notes

In December 2015, various Promissory Note holders agreed to waive outstanding interest of \$57,039, in addition to waiving future interest up to the end of May 2016 or December 2016.

In January 2016, the Company settled Promissory Notes with a face value of \$233,333 for \$58,333 cash, with all interest accrued and owing forgiven as part of the settlement. The Company recognized a gain on settlement of \$175,000. During the nine months ended February 29, 2016, no interest payments were made.

As of February 29, 2016, 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: \$123,760 (May 31, 2015 - \$107,380)
- Promissory Notes: \$1,411,484 (May 31, 2015 - \$1,448,073)
- Interest payable on Notes: \$45,831 (May 31, 2015 - \$67,252)

The difference between the carrying value of the notes and the amount of \$1,710,695 payable at maturity on June 30, 2017 will be amortized using the effective interest rate method.

11. Share Capital

- (a) *Authorized and issued share capital*

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Series A Convertible Preferred Shares. As at February 29, 2016, there are 32,300,385 common shares outstanding (May 31, 2015 - 13,087,385) and 27,300 preferred shares outstanding (May 31, 2015 - 27,300).

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Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

(b) *Common share issuances*

Nine months ended February 29, 2016

On June 10, 2015, the Company issued 12,353,000 common share units comprising 12,353,000 common shares, at \$0.06 per share, and 12,353,000 transferable share purchase warrants exercisable for a period of two years from the date of issue at \$0.10 per share. The value assigned to the warrants of \$316,299 was determined using the Black Scholes Option Pricing Model with the following assumptions: risk free interest rate – 0.69%; annual dividends – nil; expected life – 24 months; expected stock price volatility – 215%.

On December 2, 2015, the Company issued 6,500,000 common share units comprising 6,500,000 common shares, at \$0.07 per share, and 6,500,000 transferable share purchase warrants exercisable for a period of two years from the date of issue at \$0.10 per share. The value assigned to the warrants of \$205,908 was determined using the Black Scholes Option Pricing Model with the following assumptions: risk free interest rate – 0.61%; annual dividends – nil; expected life – 24 months; expected stock price volatility – 191%.

On December 9, 2015, a related party exercised 360,000 share purchase warrants for 360,000 common shares at \$0.10 per share.

Subsequent to February 29, 2016, 4,555,000 share purchase warrants have been or are in the process of being exercised for 4,555,000 common shares of the Company at \$0.10 per share.

(c) *Share purchase warrants*

The changes in warrants outstanding during the nine months ended February 29, 2016 and the year ended May 31, 2015 are as follows:

		Number of Warrants	Weighted Average Exercise Price	Expiry
			\$	
May 31, 2014	Outstanding Balance	1,156,000	0.500	
June 5, 2014	Issuance	1,200,000	0.125	June 5, 2015
May 15, 2015	Expiry	(1,116,000)	0.500	
May 31, 2015	Outstanding Balance	1,240,000	0.260	
June 5, 2015	Expiry	(1,200,000)	0.125	
June 10, 2015	Issuance	12,353,000	0.100	June 10, 2017
July 31, 2015	Expiry	(20,000)	0.500	
September 16, 2015	Issuance	2,500,000	0.125	September 16, 2017
October 31, 2015	Expiry	(20,000)	0.500	
December 2, 2015	Issuance	6,500,000	0.100	December 2, 2017
December 9, 2015	Exercised	(360,000)	0.100	
February 29, 2016	Outstanding Balance	20,993,000	0.103	

(d) *Share purchase options*

As of February 29, 2016, the Company has no outstanding share purchase options.

(e) *Equity reserves*

The breakdown of equity reserves as of February 29, 2016 is as follows:

	February 29, 2016	May 31, 2015
	\$	\$
Conversion Rights on Convertible Preferred Shares	66,027	66,027
Conversion Rights on Promissory Notes	700,749	796,623
Share-based Compensation and Warrants	2,387,810	3,970,515
Deferred Income Tax Recovery	(257,250)	(257,250)
	2,897,336	4,575,915

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Notes to Consolidated Financial Statements

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12. Commitments and Contingencies

- (a) The Company leases office space and equipment under non-cancelable operating leases expiring in various years through 2018 and also leases computer hardware and software under non-cancelable finance leases. Minimum commitments for each fiscal year under non-cancelable leases as at February 29, 2016 are as follows:

	Capital Leases	Operating Leases
	\$	\$
2016	27,390	61,500
2017	110,365	234,000
2018	59,216	40,500
2019	8,795	-
Total minimum Lease payments	205,766	336,000
Less: amount representing Interest	(26,056)	-
Less: amount representing Taxes and Fees	(12,992)	-
Present value of minimum Lease payments	166,719	336,000
Less: Current portion of Financial Lease obligations	(87,868)	-
Non-current portion of Finance Lease obligations	78,851	336,000

The operating lease commitment relates to the Company's Vancouver and Edmonton offices, as well as its Vancouver data centre facility. All commitments with related parties are outlined in Note 7.

- (b) The Company's outstanding loans, debentures, and promissory notes are disclosed in notes 8, 9, and 10 respectively.
- (c) The Company, in the normal course of business, is a party to various claims and lawsuits. The Company's accounting policy is to include the estimated net cost of disposition of known claims and lawsuits in its financial statements where it is possible to make such estimates.

The Company is subject to a wrongful dismissal lawsuit by a former corporate officer of the Company. The notice of claim sets out the relief sought by the Plaintiff but does not specify any specific dollar amount associated with the claim. The Company has provided all final payments owing as per the Canada Labour Code and any further claims were settled subsequent to February 29, 2016.

In the opinion of management, all other claims and suits are adequately covered by insurance, or are provided for in the financial statements, or, if not so covered or provided for, the results are not expected in the foreseeable future to materially affect the Company's financial position or financial performance.

13. Capital Disclosures

The Company defines its capital as shareholders' equity (deficit), convertible preferred shares, convertible promissory notes, loans, and convertible debentures. The Company's financial strategy is designed and formulated to maintain a flexible capital structure to allow the Company the ability to respond to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue additional debt or issue debt to replace existing debt with similar or different characteristics.

The Company's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Company's needs, and market and economic conditions at the time of the transaction. There were no changes in the Company's approach to capital management during the year and the Company is not exposed to any externally imposed capital requirements.

Uniserve Communications Corporation

Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

14. Financial Instruments

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its trade receivables. The Company performs ongoing credit evaluations of its customers' financial condition to determine the need for an allowance for doubtful accounts. The Company has not experienced significant credit losses to date. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

As at February 29, 2016, the balance from three customers made up 26.3% of trade receivables (three customers made up 31.3% of the balance at May 31, 2015).

The following table sets forth details of the aged receivables as well as the related allowance for the doubtful accounts:

	February 29, 2016	May 31, 2015
	\$	\$
Current	144,287	78,862
31-60 days past billing date	114,143	94,180
61-90 days past billing date	29,722	8,479
Greater than 90 days past billing date	23,456	7,207
Total Receivables	311,608	188,728
Less - Allowance for Doubtful Accounts	(27,507)	(6,538)
	284,101	182,190

The Company's secondary exposure to credit risk is on its cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will change. At February 29, 2016 the Company was exposed to interest rate risk as significant interest bearing debt matures within 12 months or less. These debts include:

	\$
Convertible Debenture	413,125
Convertible Preferred Shares	273,000
Loans Payable	593,889
	1,280,014

A 1% change in interest rates would impact the Company's net income by \$12,800 over the next twelve months. The Company has mitigated this risk by entering into fixed rate agreements.

(c) Currency risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as certain suppliers' invoices are denominated in United States dollars. A further weakening of the Canadian Dollar will increase certain costs of goods sold by the Company, and may hurt the Company's competitiveness on price. The Company currently does not use financial instruments to hedge this risk.

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Notes to Consolidated Financial Statements

Nine months ended February 29, 2016 and February 28, 2015 (Canadian Dollars)

At February 29, 2016, the Canadian dollar equivalent value of the Company's United States dollar denominated financial instruments is as follows:

	\$
Cash	9,176
Trade payables	(30,853)
	<u>(21,677)</u>

A 10% movement in US currency versus the Canadian dollar would affect the Company's net income by approximately \$2,168.

(d) *Liquidity risk exposure*

Liquidity risk arises from the Company's general and capital funding needs. Further discussion on liquidity risk is included in note 1.

(e) *Fair values*

The fair value of the Company's financial assets and liabilities approximate their fair values due to the short-term nature of these instruments.

15. Employee Wages and Benefits Expense

Employee wages and benefits expense of \$1,233,421 (2015 - \$1,284,857) is included in operations and service delivery expenses for the nine months ended February 29, 2016, and \$375,996 (2015 - \$182,571) in sales and marketing expense.

16. Statements of Cash Flows

Changes in working capital and other items:

	Nine Months Ended	
	February 29, 2016	February 28, 2015
	\$	\$
Trade and other receivables	(101,911)	119,200
Inventories	(31,192)	9,733
Prepaid expenses	(45,872)	(36,664)
Trade payables and accrued liabilities	(203,880)	(326,950)
Deferred Revenue	2,638	50,634
Accrued Dividends Payable	16,380	(124,299)
Accrued Interest Payable	(21,421)	(7,150)
	<u>(385,258)</u>	<u>(315,497)</u>

17. Subsequent Events

Subsequent to February 29, 2016, the following events occurred:

- (a) The Company settled a wrongful dismissal lawsuit by a former corporate officer of the Company. The Company had previously provided for this expenditure.
- (b) Various warrant holders have converted a total of 4,630,000 warrants at \$0.10 per share for 4,630,000 Common Shares of the Company.