Condensed Interim Consolidated Financial statements of

Uniserve Communications Corporation

For the three months ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

Uniserve Communications Corporation
Three months ended August 31, 2016 and 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 “Hashim Mitha”

Hashim Mitha
Chief Executive Officer

signed “Albert Lim”

Albert Lim
Chief Financial Officer

October 28, 2016

Uniserve Communications Corporation

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

		Three Months Ended	
	Note	**August 31, 2016**	August 31, 2015
		$	$
Revenue		**1,623,559**	1,505,595
Cost of Revenues		**808,428**	727,693
		815,131	777,902
Expenses			
Operations and Service Delivery Expenses		**760,648**	684,552
Sales and Marketing		**90,294**	118,977
Amortization of Property and Equipment	5	**76,146**	80,147
		927,088	883,676
Operating Loss		**(111,957)**	(105,774)
Other Expenses (Income)			
Finance Charges	7,8,9	**149,257**	106,587
Foreign Exchange		**(4,591)**	418
		144,666	107,005
Net Loss and Comprehensive Loss		**(256,623)**	(212,779)
Basic and Diluted Loss Per Share		**$ (0.01)**	$ (0.01)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted		**38,508,646**	24,097,668

See accompanying notes

Uniserve Communications Corporation

Consolidated Balance Sheets

(Expressed in Canadian dollars)

	Note	**August 31, 2016**	May 31, 2016
		$	$
Assets			
Current Assets			
Cash		**34,320**	49,315
Trade and Other Receivables	13a	**356,724**	421,398
Inventories		**48,291**	43,366
Prepaid Expenses		**157,217**	173,605
		596,552	687,684
Property and Equipment	5	**885,732**	952,415
		1,482,284	1,640,099
Liabilities and Shareholders' Deficit			
Current Liabilities			
Trade Payables and Accrued Liabilities		**1,716,720**	1,746,098
Accrued Dividends Payable On Preferred Shares	9	**134,680**	129,220
Convertible Debenture	8	**413,125**	413,125
Convertible Preferred Shares	9	**273,000**	273,000
Deferred Revenue		**133,673**	155,718
Finance Lease Obligations - Current Portion	11	**86,647**	88,313
Interest Payable On Promissory Notes	9	**73,222**	52,397
Lease Inducement - Current Portion	6a	**40,541**	48,649
Loans Payable - Current Portion	7	**1,266,896**	596,277
Promissory Notes Payable - Current Portion	9	**1,514,653**	-
		5,653,157	3,502,797
Long-Term Liabilities			
Lease Inducement	6a	**-**	4,054
Promissory Notes Payable	9	**-**	1,461,840
Finance Lease Obligations	11	**37,744**	58,679
Loans Payable	7	**413,973**	1,138,697
		6,104,874	6,166,067
Shareholders' Deficit			
Issued Capital	10	**17,620,401**	17,460,401
Equity Reserves	10e	**4,894,721**	4,894,721
Deficit		**(27,137,712)**	(26,881,090)
		(4,622,590)	(4,525,968)
		1,482,284	1,640,099

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Approved on behalf of the Board:

Signed "Hashim Mitha"
Director

Signed by "Albert Lim"
Director

See accompanying notes

Uniserve Communications Corporation

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	Note	Three Months Ended August 31, 2016	August 31, 2015
		$	$
Operating Activities			
Net Loss		**(256,623)**	(212,777)
Items not involving Cash			
Amortization of Lease Inducement		**(12,162)**	(12,162)
Amortization of Property and Equipment		**76,146**	80,147
Non-cash Interest Expense		**52,814**	49,536
Reclass of Intangible Assets to Cost of Revenues		**-**	5,700
Changes in Working Capital and other items	15	**50,999**	(8,317)
Net cash used in operating activities		**(88,826)**	(97,873)
Investing Activities			
New Product Development		**-**	(15,847)
Purchase of Property and Equipment		**(9,463)**	(811,567)
Net cash used in investing activities		**(9,463)**	(827,414)
Financing Activities			
Issuance of Convertible Debenture		**-**	183,125
Net proceeds from issuance of Common Shares		**160,000**	285,080
Proceeds from issuance of Debt		**-**	718,487
Repayment of Debt		**(54,105)**	-
Repayment of Finance Lease obligations		**(22,601)**	(15,060)
Repayment of Convertible Debentures		**-**	(320,000)
Net cash provided by financing activities		**83,294**	851,632
Change in cash		**(14,995)**	(73,655)
Cash at beginning of period		**49,315**	137,844
Cash at end of period		**34,320**	64,189
Supplemental cash flow information	15		

See accompanying notes

Uniserve Communications Corporation

Consolidated Statement of Changes in Shareholders' Deficit

(Expressed in Canadian dollars)

	Note	Issued capital Shares	Issued capital Amount	Subscription Received In Advance	Equity Reserves	Deficit	Total Shareholders' Deficit
			$	$	$	$	$
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	10b	12,353,000	741,180	(456,100)	-	-	285,080
Issuance of Share Purchase Warrants	10b	-	(316,299)	-	316,299	-	-
Expiry of Share Purchase Warrants		-	2,103,357	-	(2,103,357)	-	-
Net Loss and Comprehensive Loss		-	-	-	-	(212,777)	(212,777)
Balance, August 31, 2015		**25,440,385**	**18,527,139**	**-**	**2,788,857**	**(26,208,048)**	**(4,892,052)**
Issuance of Share Capital for Cash	10b	11,627,143	978,600	-	-	-	978,600
Issuance of Share Capital for Debt	10b	362,857	25,400	-			25,400
Issuance of Share Purchase Warrants	10b	-	(205,908)	-	336,908	-	131,000
Promissory Notes Conversion Rights		-	-	-	(95,874)	-	(95,874)
Expiry of Share Purchase Warrants		-	74,912	-	(74,912)	-	-
Share Purchase Warrants Entry Adjustment			(2,103,357)	-	2,103,357	-	-
Exercise of Share Purchase Warrants		-	163,615	-	(163,615)	-	-
Settlement of Promissory Notes	9	-	-	-	-	71,906	71,906
Net Loss and Comprehensive Loss		-	-	-	-	(744,948)	(744,948)
Balance, May 31, 2016		**37,430,385**	**17,460,401**	**-**	**4,894,721**	**(26,881,090)**	**(4,525,968)**
Exercise of Share Purchase Warrants	10b	1,450,000	145,000	-	-	-	145,000
Issuance of Share Capital for Debt	10b	150,000	15,000	-	-	-	15,000
Net Loss and Comprehensive Loss		-	-	-	-	(256,623)	(256,623)
Balance, August 31, 2016		**39,030,385**	**17,620,401**	**-**	**4,894,721**	**(27,137,712)**	**(4,622,590)**

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 three months ended August 31, 2016 the Company had a net loss of $256,623 (2016 –$212,779). As at August 31, 2016, the Company had a working capital deficiency of $5,056,605 (May 31, 2016: $2,815,113).

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 consolidated financial statements are prepared 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").

Financial statement preparation, in accordance with IFRS, 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 3.

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 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, 2016 which were prepared in accordance with IFRS.

3. Significant Accounting Policies

These interim consolidated financial statements were prepared using the same IFRS accounting policies and methods as those used in the Company's 2016 financial statements for the year ended May 31, 2016.

4. Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not effective for three months ended August 31, 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, up to the date of issuance of the Company's financial statements are listed below:

(a) *IFRS 9 - Financial instruments*

In November 2009, the IASB issued IFRS 9, Financial instruments ("IFRS 9") as a first step in its project to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces new requirements for how an entity should classify and measure financial assets that are in the scope of IAS 39. The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets, and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if two criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent payments of principal and interest. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option, if doing so would significantly reduce or eliminate an accounting mismatch. If a financial asset does not meet the business model and contractual terms criteria to be measured at amortized cost, then it is subsequently measured at fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in Other Comprehensive Income, rather than within Profit or Loss. The standard must be applied retrospectively. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company is still working to understand the impact on the classification and measurement of financial assets.

(b) *IFRS 15 – Revenue from Contracts with Customers*

This new 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 adoption permitted. The Company has not early adopted these standards and is currently assessing the impact that these standards will have on its financial statements.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

(c) *IFRS 16 - Leases*

Under IFRS 16, a single accounting model is introduced for leases, where all leases will require an asset and liability to be recognized on the balance sheet, when a lessee controls the right to use an identified asset through exclusive use of the asset for a period of time. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15. The Company has not adopted these standards yet, and believes it will have minimal impact on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

5. Property and Equipment

	Equipment ($)	Software ($)	Leasehold Improvements ($)	Total ($)
Cost				
Balance May 31, 2015	**6,502,107**	**808,069**	**225,184**	**7,535,360**
Additions	894,049	17,991	22,264	934,304
Disposals	-	-	-	-
Balance May 31, 2016	**7,396,154**	**826,060**	**247,448**	**8,469,662**
Additions	9,463	-	-	9,463
Disposals	-	-	-	-
Balance August 31, 2016	**7,405,617**	**826,060**	**247,448**	**8,479,125**
Accumulated Depreciation				
Balance May 31, 2015	**6,151,874**	**807,026**	**202,123**	**7,161,023**
Depreciation Charge	333,529	4,540	18,155	356,224
Balance May 31, 2016	**6,485,404**	**811,566**	**220,277**	**7,517,247**
Depreciation Charge	68,065	1,812	6,270	76,146
Balance August 31, 2016	**6,553,469**	**813,378**	**226,547**	**7,593,394**
Net Book Value				
Balance May 31, 2016	**910,750**	**14,494**	**27,171**	**952,415**
Balance August 31, 2016	**852,149**	**12,682**	**20,901**	**885,732**

The cost of property under capital leases, (equipment and software) aggregated $241,301 as at August 31, 2016 (May 2016 - $268,600). During the three months ended August 31, 2016 and 2015, the Company financed no additional leases. Details of capital lease obligations are outlined in Note 11.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

6. 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 three months ended August 31, 2016 including short-term benefits totaled $63,300 (2016 - $75,653).

Transactions with related parties:

(a) Operating Lease – Vancouver Office Rent

For the three months ended August 31, 2016, the Company recognized rent expenses of $37,500 (2016 - $41,417) related to this agreement. The Company also recognized an additional $9,039 (2016 - $5,438) to rent expense for parking fees.

Lease inducement of $12,163 (2016 - $12,163) was recognized as a reduction to rent expense. As of August 31, 2016, $40,541 of the lease inducement remains.

(b) Operating Lease – Vancouver Data Centre

For the three months ended August 31, 2016, the Company recognized $40,630 (2016 - $21,000) to cost of sales and operating expenses related to this agreement. During this period, the rent for additional leased space was reduced from $7,095 per month, to $2,678 per month, effective June 1, 2016, as the Company had not fully utilized the additional space.

(c) Operating Lease – Vancouver Office Space

For the three months ended August 31, 2016, no amounts were recognized under this agreement (2016 - $2005). The agreement ended June 30, 2015.

(d) Loans Payable

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

	August 31, 2016	May 31, 2016
	$	$
Loan amounts owed to a company controlled by a director and significant shareholder	**1,003,500**	1,003,500
Loan amounts owed to other directors	**59,003**	81,610
	1,062,503	1,085,110

Further details on these loans are disclosed in Note 7.

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

	August 31, 2016	August 31, 2015
	$	$
Interest paid or accrued to a company controlled by a director and significant shareholder	**25,976**	6,066
Interest paid or accrued to other directors	**2,334**	-
	28,310	6,066

(e) Revenues

Included in revenue for the year three months ended August 31, 2016 are sales totaling $57,250 (2016 - $40,269) in hardware and other services sold to companies controlled by various directors of the Company.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

7. Loans Payable

Loans payable are comprised of the following:

	Note	**August 31, 2016**	May 31, 2016
		$	$
Term Loan with Related Party	a	**260,000**	260,000
Demand Loan	b	**100,000**	100,000
Term Loan with Related Party	c	**100,000**	100,000
Vehicle Loan - Current Portion	d	**4,247**	4,184
Vehicle Loan - Long Term Portion	d	**3,739**	4,824
Demand Loan with Related Party	e	**306,000**	306,000
Equipment Loan - Current	f	**125,305**	123,998
Equipment Loan - Long Term	f	**385,075**	416,858
Term Loan with Related Party - Current	g	**33,843**	30,595
Term Loan with Related Party - Long Term	g	**25,159**	51,015
Term Loan with Related Party	h	**337,500**	337,500
Total Loans		**1,680,869**	1,734,974

Related party transactions: $1,062,503 (May 31, 2016 - $1,085,110) of total loans are due to related parties (see Note 6 (e)). $64,614 of interest payable on loans is included in trade payables and accrued liabilities.

(a) During the three months ended August 31, 2016, the Company accrued $5,200 in interest (2016 – nil)

(b) During the three months ended August 31, 2016, the Company accrued $3,000 in interest (2016 – nil)

(c) During the three months ended August 31, 2016, the Company accrued $2,000 in interest (2016 - nil).

(d) During the three months ended August 31, 2015, the Company paid $131 in interest (2016 - $190).

(e) During the three months ended August 31, 2016, the Company accrued $6,120 in interest (2016 - nil).

(f) During the three months ended August 31, 2016, the Company paid $5,626 in interest (2016 - $4,546), and accrued an additional $2,350 (2016 - $2,350) of interest payable to a related party, in consideration for the end-of-term payment for providing the loan facility.

(g) During the three months ended August 31, 2016, the Company paid $2,334 in interest. The loan commenced October 15, 2015, and as such, no interest was paid in the comparative period last year.

(h) During the three months ended August 31, 2016, the Company accrued $12,656 in interest. No interest was paid in the comparative period last year, as the loan commenced January 4, 2016.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

8. Convertible Debentures

Convertible Debentures are comprised as follows:

	Note	**August 31, 2016**	May 31, 2016
		$	$
Convertible debenture	a	**105,000**	105,000
Convertible debenture	a	**120,000**	120,000
Convertible debenture - related party	b	**188,125**	188,125
Total Convertible Debentures		**413,125**	413,125

Related party transactions: $188,125 (2016 - $313,125) of total convertible debentures are due to related parties. $4,131 of interest payable is included in trade payables and accrued liabilities, including $1,881 (2016 - $17,175) of interest payable to related parties is included in trade payables and accrued liabilities.

(a) During the three months ended August 31, 2016, the company accrued or paid $6,750 (2016 - $6,550) in interest.

(b) During the three months ended August 31, 2016, the company accrued or paid $5,644 (2016 - $5,644) in interest.

9. Convertible Preferred Shares and Promissory Notes

During the three months ended August 31, 2016, no interest payments were made. In addition, all Promissory Notes ("Notes") were classified to current liabilities, as the due dates are all within one year.

As of August 31, 2016, the Company has the following liabilities related to the Preferred Shares and Promissory Notes:

- Preferred Shares: $273,000 (May 31, 2016: $273,000)
- Dividends on Preferred Shares in arrears: $134,680 (May 31, 2016: $129,220)
- Promissory Notes: $1,514,653 (May 31, 2016: $1,461,840)
- Interest payable on Notes: $73,222 (May 31, 2016: $52,397)

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

10. 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 August 31, 2016, there are 39,030,385 common shares outstanding (May 31, 2016 – 37,430,385) and 27,300 preferred shares outstanding (May 31, 2016 – 27,300).

(b) Common share issuances

<u>Year Ended May 31, 2016</u>

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 – 152%. $456,100 of the funds were received as at May 31, 2015 and included in the subscriptions received.

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 – 135%.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

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

Between March 1, 2016 and May 31, 2016, 5,130,000 share purchase warrants were exercised for 5,130,000 common shares of the Company at $0.10 per share.

Three months ended August 31, 2016:

Between June 1, 2016 and June 30, 2016, 1,600,000 share purchase warrants were exercised for 1,600,000 common shares of the Company at $0.10 per share.

(c) *Share purchase warrants*

The changes in warrants outstanding during the three months ended August 31, 2016 and the year ended May 31, 2016 are as follows:

		Number of Warrants	Weighted Average Exercise Price	Expiry
			$	
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	
May 31, 2016	Exercised	(5,130,000)	0.100	
May 31, 2016	**Outstanding Balance**	**15,863,000**	**0.100**	
June 30, 2016	Exercised	(1,600,000)	0.100	
August 31, 2016	**Outstanding Balance**	**14,263,000**	**0.106**	

(d) *Share purchase options*

As of August 31, 2016, the Company has no outstanding share purchase options.

(e) *Equity reserves*

Conversion rights on Preferred Shares

This reserve records the equity component of the convertible Preferred Shares which has both liability and equity components. On conversion, the amount recorded is transferred to share capital. On redemption or settlement, the amount is transferred to the deficit.

Conversion rights on Promissory Notes

This reserve records the equity component of the Promissory Notes which has both liability and equity components. On conversion, the amount recorded is transferred to share capital. On redemption or settlement, the amount is transferred to the deficit.

Share-based compensation and warrants:

The reserve records items recognized as stock-based compensation expense, other share-based payments and amounts allocated to warrants on unit private placements until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

	August 31, 2016	May 31, 2016
	$	$
Conversion Rights on Convertible Preferred Shares	66,027	66,027
Conversion Rights on Promissory Notes	700,749	700,749
Share-based Compensation and Warrants	4,385,195	4,385,195
Deferred Income Tax Recovery	(257,250)	(257,250)
	4,894,721	**4,894,721**

11. 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.

Finance Lease Obligations

	Aug 31, 2016	May 31, 2016
	$	$
2017	**80,785**	110,365
2018	**59,216**	59,216
2019	**8,795**	8,795
Total minimum Lease payments	**148,796**	178,376
Less: amount representing Interest	**(14,859)**	(32,640)
Less: amount representing Taxes and Fees	**(9,546)**	(10,167)
Present value of minimum Lease payments	**124,391**	**135,569**
Less: Current portion of Finance Lease obligations	**(86,647)**	(71,126)
Non-current portion of Finance Lease obligations	**37,744**	**64,443**

Operating Lease Commitments

The operating lease commitments relate 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. The minimum lease payments per these leases are $178,500 in 2017 and $40,500 in 2018.

(b) The Company's outstanding loans, debentures, and promissory notes are disclosed in notes 7, 8, and 9 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 also 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 BC Employment Standards Code and believes there is no further obligation in connection with this claim and considers it unlikely that it will need to make any payment in connection with this claim. Accordingly, no provision is recorded in these financial statements.

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.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

12. 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.

13. 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 are 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 August 31, 2016 the balance from three customers made up 34.4% of trade receivables (two customers made up 43.9% of the balance at May 31, 2016).

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

	August 31, 2016	**May 31, 2016**
	$	**$**
Current	181,078	195,321
31-60 days past billing date	82,254	176,980
61-90 days past billing date	58,131	43,445
Greater than 90 days past billing date	72,882	47,265
Total Receivables	394,344	463,011
Less - Allowance for Doubtful Accounts	(37,620)	(41,613)
	356,724	**421,398**

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 August 31, 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	1,266,896
	1,953,021

A 1% change in interest rates would impact the Company's net income by $19,530 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. The Company currently does not use financial instruments to hedge this risk.

At August 31, 2016, the Canadian dollar equivalent value of the Company's United States dollar denominated financial instruments is as follows:

	$
Cash	9,801
Trade receivables	7,875
Trade payables	(39,238)
	(21,562)

A 10% movement in US currency versus the Canadian dollar would affect the Company's net income by approximately $2,156.

(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.

14. Employee Wages and Benefits Expense

Employee wages and benefits expense of $440,902 (2016 - $684,552) is included in operations and service delivery expenses for the three months ended August 31, 2016, and $23,586 (2016 - $118,977) in sales and marketing expense.

Three months ended August 31, 2016 and 2015 (Canadian Dollars)

15. Statements of Cash Flows

Changes in working capital and other items:

	Three Months Ended	
	August 31, 2016	**August 31, 2016**
	$	**$**
Trade and other receivables	64,674	(27,356)
Inventories	(4,925)	(11,258)
Prepaid expenses	16,388	(26,781)
Trade payables and accrued liabilities	(29,378)	39,672
Deferred Revenue	(22,045)	(12,289)
Accrued Dividends Payable	5,460	5,460
Accrued Interest Payable	44,158	24,235
	74,332	**(8,317)**

16. Subsequent Events

Subsequent to August 31, 2016, the following event occurred:

(a) On October 13, 2016, the Company announced that it had agreed to a private placement of 15,000,000 Units at $0.05 per Unit. Each unit consists of one common share of the Company and one transferable 2-year share purchase warrant. The share purchase warrant will be exercisable for one additional common share of the Company at $0.05 per share during the first year, and $0.06 per share during the second year.