Condensed Consolidated Financial Statements of

MICROMEM TECHNOLOGIES INC.

For the three and nine months ended July 31, 2016 and 2015

(Expressed in United States Dollars)

MICROMEM TECHNOLOGIES INC.
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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States dollars)

	July 31, 2016 (Unaudited)	October 31, 2015
Assets		
Current assets:		
Cash	$ 75,816	$ 158,568
Deposits and other receivables (Note 5)	260,265	56,108
	336,081	214,676
Property and equipment, net (Note 6)	12,306	15,592
Deferred development costs (Note 7)	-	3,070,299
Intangible assets, net (Note 8)	43,543	58,057
Patents, net (Note 8)	404,824	309,242
	$ 796,754	$ 3,667,866
Liabilities and Shareholders' Equity		
Current liabilities:		
Bridge loans (Note 9)	$ 2,790,021	$ 966,588
Accounts payable and accrued liabilities	1,322,511	1,297,390
	$ 4,112,532	$ 2,263,978
Shareholders' Equity		
Share capital: (Note 9)		
Authorized:		
2,000,000 special preference shares, redeemable, voting		
Unlimited common shares without par value		
Issued and outstanding:		
203,257,854 common shares (2015: 197,176,368) (Note 9)	$ 75,623,212	$ 74,083,975
Equity component of bridge loans	115,629	-
Contributed surplus (Note 9)	26,811,730	27,213,204
Deficit	(105,866,349)	(99,893,291)
	(3,315,778)	1,403,888
	$ 796,754	$ 3,667,866

"Joseph Fuda" (Signed)
Joseph Fuda, Director

"David Sharpless" (Signed)
David Sharpless, Director

See accompanying notes.

MICROMEM TECHNOLOGIES INC.
CONDENSED STATEMENTS OF CONSOLIDATED LOSS AND COMPREHENSIVE LOSS
(Expressed in United States dollars)

For the three and nine months ended July 31, 2016 and 2015 (Unaudited)

	Three months Ended July 31		Nine months Ended July 31	
	2016	2015	**2016**	2015
Costs and expenses :				
Administration (Note 11)	**145,532**	19,574	**308,763**	262,152
Interest expense	**167,349**	36,714	**377,832**	36,714
Accretion expenses	**56,963**	-	**115,629**	-
Professional, other fees and salaries (Note 11)	**417,870**	367,306	**1,359,079**	1,552,178
Stock based compensation (Note 9)	**-**	603,687	**(85,500)**	603,687
Development costs (Note 7)	**3,778,776**	755	**3,782,194**	199,391
Travel and entertainment	**64,437**	58,529	**144,512**	133,224
Amortization of property and equipment (Note 6)	**1,327**	1,737	**3,952**	5,286
Amortization of intangible assets	**-**	67,262	**-**	67,262
Foreign exchange loss	**(21,821)**	20,142	**(33,403)**	56,564
Loss from operations	**4,610,433**	1,175,706	**5,973,058**	2,916,458
Net loss before income taxes	**(4,610,433)**	(1,175,706)	**(5,973,058)**	(2,916,458)
Income taxes (Note 10)	**-**	-	**-**	-
Net loss and comprehensive loss	**$ (4,610,433)**	$ (1,175,706)	**$ (5,973,058)**	$ (2,916,458)
Loss per share - basic and diluted (Note 9)	**$ (0.02)**	$ (0.01)	**$ (0.03)**	$ (0.02)
Weighted average number of shares (Note 9)	**200,629,426**	194,069,303	**198,017,961**	191,454,573

See accompanying notes.

MICROMEM TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States dollars)

For the three and nine months ended July 31, 2016 and 2015 (Unaudited)

	Three Months Ended July 31		Nine Months Ended July 31	
	2016	2015	**2016**	2015
Cash flows from operating activities:				
Net loss	**$ (4,610,433)**	$ (1,175,706)	**$ (5,973,058)**	$ (2,916,458)
Adjustments to reconcile loss for				
the period to net cash used in operating activities:				
Amortization of intangible assets	**-**	67,262	**-**	67,262
Amortization of property and equipment	**1,327**	1,737	**3,952**	5,286
Development costs	**3,974,939**	-	**3,974,939**	-
Accretion expense	**56,963**	-	**115,629**	-
Stock based compensation	**-**	603,687	**(85,500)**	603,687
Increase (decrease) in deposits and other receivables	**(145,905)**	150,922	**(204,157)**	735,328
(Decrease) increase in accounts payable and accrued liabilities	**(195,663)**	183,387	**97,057**	791,501
Net cash used in operating activities	**(918,772)**	(168,711)	**(2,071,138)**	(713,394)
Cash flows from investing activities:				
Purchase of property and equipment	**-**	-	**-**	-
Patents	**(26,118)**	(68,483)	**(167,570)**	(158,384)
Deferred development costs	**(197,120)**	(861,804)	**(1,101,177)**	(3,117,453)
Deferred development billed	**-**	423,358	**443,901**	1,782,632
Net cash used in investing activities	**(223,238)**	(506,929)	**(824,846)**	(1,493,205)
Cash flows from financing activities:				
Issue of common shares	**880,464**	580,142	**990,464**	1,345,419
Bridge loans advances	**239,082**	-	**1,598,514**	-
Bridge loans Interest accrued	**144,882**	-	**354,241**	-
Bridge loan repayments	**(66,887)**	-	**(129,987)**	-
Net cash provided by financing activities	**1,197,541**	580,142	**2,813,232**	1,345,419
Increase (decrease) in cash	**55,531**	(95,498)	**(82,752)**	(861,180)
Cash, beginning of period	**20,285**	170,306	**158,568**	935,987
Cash, end of period	**$ 75,816**	$ 74,808	**$ 75,816**	$ 74,807
Supplemental cash flow information:				
Interest paid (classified in operating activities)	66,887	-	129,987	-
Income taxes paid	-	-	-	-

See accompanying notes.

MICROMEM TECHNOLOGIES INC.
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in United States dollars)

	Number of shares Shares	Share capital	Contributed surplus	Equity component of Bridge loan	Deficit	Total
Balance as at November 1, 2014	**188,436,724**	**$ 70,802,776**	**$ 27,436,678**	**-**	**$ (93,376,681)**	**$ 4,862,773**
Private placement of units for cash	122,768	55,000				55,000
Warrants exercised	2,988,876	565,777	-	-	-	565,777
Fair value of warrants exercised	-	271,553	(271,553)	-	-	-
Options exercised	2,740,000	724,642	-	-	-	724,642
Fair value of options exercised	-	462,671	(462,671)	-	-	-
Stock based compensation	450,000	220,500	383,187	-	-	603,687
Net loss and comprehensive loss	-	-	-	-	(2,916,458)	(2,916,458)
Balance at July 31, 2015	**194,738,368**	**$ 73,102,919**	**$ 27,085,641**	**-**	**$ (96,293,139)**	**$ 3,895,421**
Balance at November 1, 2015	**197,176,368**	**$ 74,083,975**	**$ 27,213,204**	-	**$ (99,893,291)**	**$ 1,403,888**
Private placement of units for cash (Note 9)	366,668	110,000	-	-	-	110,000
Share compensation adjustment (Note 9)	-	(85,500)	-	-	-	(85,500)
Options exercised	3,402,318	680,463	-	-	-	680,463
Fair value of options exercised	-	401,474	(401,474)	-	-	-
Common shares issued against payable	2,000,000	370,300	-	-	-	370,300
Common shares issued against settlement of debt	312,500	62,500	-	-	-	62,500
Equity component of bridge loans	-	-	-	115,629	-	115,629
Net loss and comprehensive loss	-	-	-	-	(5,973,058)	(5,973,058)
Balance at July 31, 2016	**203,257,854**	**$ 75,623,212**	**$ 26,811,730**	**$ 115,629**	**$ (105,866,349)**	**$ (3,315,778)**

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

For the three and nine months ended July 31, 2016 and 2015

1. REPORTING ENTITY AND NATURE OF BUSINESS

Micromem Technologies Inc. ("Micromem" or the "Company") is incorporated under the laws of the Province of Ontario, Canada. The principal business address of the Company is 121 Richmond Street West, Suite 304, Toronto, Ontario, Canada.

The Company develops, based upon proprietary technology, customized sensor applications for companies operating internationally in a variety of industries.

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

(i) Micromem Applied Sensors Technology, Inc. ("MAST") incorporated in November 2007 and domiciled in Delaware, United States. MAST has the primary responsibility for the exploitation of the Company's technologies in conjunction with various strategic partners and customers.

(ii) 7070179 Canada Inc., incorporated in October 2008 under the Canada Business Corporations Act in Ontario, Canada. The Company has assigned to this entity its rights, title and interests in certain patents which it previously held, directly in exchange for common shares of this entity.

(iii) Memtech International Inc., Bahamas; Memtech International (USA) Inc., Delaware, United States; Pageant Technologies (USA) Inc., United States; Pageant Technologies Inc., Barbados; and Micromem Holdings (Barbados) Inc., Barbados. All of these entities are inactive.

These consolidated financial statements were authorized for issuance and release by the Company's Board of Directors on September 29, 2016.

2. GOING CONCERN

These consolidated financial statements have been prepared on the “going concern” basis in accordance with International Financial Reporting Standards (“IFRS”), which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

There are material uncertainties related to conditions and events that cast doubt about the Company’s ability to continue as a going concern for a reasonable period of time in future. During the nine months ended July 31, 2016, the Company reported net loss and comprehensive loss of $5,973,058 (2015: $2,916,458). The Company’s working capital deficiency as of July 31, 2016 is $3,776,451 (as at October 31, 2015: working capital deficiency of $2,049,302).

The Company’s future success depends on its continued ability to raise additional financing and on the profitable commercialization of its proprietary sensor technology. Based upon its current operating and financial plans, management of the Company believes that it will have sufficient access to financial resources to fund the Company’s planned operations through fiscal 2016-2017; however, if the Company is not able to complete its financial plans and/or is not able to profitably commercialize its technology, then there is doubt the Company can continue as a going concern.

If the “going concern” assumption were not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used; in such cases, these adjustments would be material.

3. BASIS OF PRESENTATION

a) Statement of compliance:

These condensed interim quarterly consolidated financial statements have been prepared in accordance with IFRS and its interpretations adopted by International Accounting Standards Board ("IASB") and comply with the requirements of IAS standard 34, Interim Financial Reporting.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments designated at fair value through profit and loss, which are stated at their fair value.

c) Functional and presentation currency:

These consolidated financial statements are presented in United States dollars ("U.S. dollars"), which is also the Company's functional currency.

d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a risk of resulting in a material adjustment are as follows:

i) The Company makes estimates and utilizes assumptions in determining the fair value for stock based compensation expense, warrants, unit private placements and the bifurcation of convertible debt.

3. BASIS OF PRESENTATION (Cont'd)

d) Use of estimates and judgments: (Cont'd)

ii) The Company makes estimates related to the recovery of deferred development costs based on the expectation and assumption of realizing revenues from commercial agreements with the companies for whom these projects have been undertaken. Changes in these expectations and assumptions could result in a change in the recoverable amount calculated.

iii) The Company makes estimates related to the useful lives of property and equipment, patents and intangible assets and the related amortization. The Company also periodically assesses the recoverability of long-lived assets. The recoverability analysis requires the Company to make assumptions about future operations. Changes to one or more assumptions would result in a change in the recoverable amount calculated and/or amortization expensed.

iv) Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. At July 31, 2016, the Company has assessed that it may not be probable that sufficient taxable profit will be available to use deferred income tax assets based on operating losses in prior years, therefore, there are no balances carried in the consolidated statements of financial position for such assets.

v) The Company applies judgment in assessing the functional currency of each entity consolidated in these financial statements.

4. CONTINUITY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PROCEDURES

e) Accounting Policies:
These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application as set in the audited consolidated financial statements for the year ended October 31, 2015 and should be read in conjunction with the audited consolidated financial statements. There have been no changes in accounting policies or methods of application of accounting policies in the period ending July 31, 2016.

f) New Standards:
Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the IFRS Interpretations Committee that are mandatory for future accounting periods. These include IAS1 – presentation of Financial Statements, IFRS 15 - Revenues from Contracts with Customers and IAS 18 – Revenues. The Company is currently assessing the impact of these standards – there is no effect or impact on the Company’s financial statements for the period ending July 31, 2016.

g) Fair Values:
There were no changes in the methods and assumptions used in estimating the fair value of the Company’s financial instruments and no changes to the classification of financial instruments in terms of the levels of financial hierarchy during the period ending July 31, 2016 from that which was reported at October 31, 2015.

h) Capital Management:
There have been no changes to the objectives, policies and procedures that the Company has adopted and implemented with respect to capital management during the period ending July 31, 2016 from those disclosed at October 31, 2015. The Company continues to secure financing; the components of the financing which has been secured have changed based on changing market conditions over time.

i) Financial Risks:
The Company is exposed to and evaluates a variety of financial risks relative to its activities: market risk (including foreign exchange risk and interest rate risk), liquidity risk and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects financial performance. Risk management is carried out under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies. Based on management’s assessment as of July 31,

(Expressed in United States dollars)

2016, the financial risks have changed since October 31, 2015 as the Company's working capital position has deteriorated. The Company continues to closely monitor its working capital position.

5. DEPOSITS AND OTHER RECEIVABLES

The balance reported as Deposits and Other Receivable consists of:

		July 31, 2016		October 31, 2015
Advances to Employees	$	8,712	$	26,060
Prepaid trade payables (Note 9(a))		176,231		-
Prepaid Insurance and other		75,322		30,048
	$	260,265	$	56,108

(Expressed in United States dollars)

6. PROPERTY AND EQUIPMENT

		Computers		Furniture and Equipment		Total
At November 1, 2014	$	52,285		25,989	$	78,274
Additions		1,286		-	$	1,286
Year ended October 31, 2015	$	53,571	$	25,989	$	79,560
At November 1, 2015	$	53,571		25,989	$	79,560
Additions		1,274			$	1,274
Disposals		(1,582)		-	$	(1,582)
Nine months ended July 31, 2016	$	53,263	$	25,989	$	79,252

Accumulated amortization		Computers		Furniture and Equipment		Total
At November 1, 2014	$	30,802		25,989	$	56,791
Amortization for the year		7,177		-		7,177
Year ended October 31, 2015	$	37,979	$	25,989	$	63,968
At November 1, 2015	$	37,979		25,989	$	63,968
Amortization for the period		3,952				3,952
Adjustment for disposals		(974)		-		(974)
Nine months ended July 31, 2016	$	40,957	$	25,989	$	66,946
Net book value at October 31, 2015	**$**	**15,592**		**-**	**$**	**15,592**
Net book value at July 31, 2016	**$**	**12,306**		**-**	**$**	**12,306**

(Expressed in United States dollars)

7. DEFERRED DEVELOPMENT COSTS

The breakdown of development costs that have been capitalized is as follows:

		July 31, 2016		October 31, 2015
Opening balance	**$**	**3,070,299**	$	3,525,456
Additional project costs incurred		**1,186,720**		3,723,900
Recovery of development costs		**(443,901)**		(1,783,632)
Writedown of project costs		**(3,813,118)**		(2,395,425)
Closing balance		**-**	$	3,070,299

Additions to deferred development costs in 2016 have included amortization of intangible assets and patents of $86,502 (2015 - $55,959).

To date, the Company has recovered from its development partners a portion of the costs it has incurred as deferred development costs coincident with meeting milestones as stipulated in development contracts.

At July 31, 2016 the Company has concluded that the timing of realization of potential revenues cannot be predicted with sufficient accuracy and the Company's working capital constraints are such that it has become more difficult to service its current obligations. Accordingly, it has written down the remaining carrying value of deferred development costs previously reported.

(Expressed in United States dollars)

8. INTANGIBLE ASSETS AND PATENTS

Intangible Assets

Cost		
At November 1, 2014	$	135,465
Additions		-
Year ended October 31, 2015	$	135,465
At November 1, 2015	$	135,465
Additions		-
Nine months ended July 31, 2016	$	135,465
Accumulated amortization		
At November 1, 2014	$	58,056
Amortization for the year		19,352
Year ended October 31, 2015	$	77,408
At November 1, 2015	$	77,408
Amortization for the period		14,514
Nine months ended July 31, 2016	$	91,922
Net book value at October 31, 2015	**$**	**58,057**
Net book value at July 31, 2016	**$**	**43,543**

(Expressed in United States dollars)

8. INTANGIBLE ASSETS AND PATENTS (Cont'd)

Patents

Cost

At November 1, 2014	$	310,553
Additions		213,820
Writedown of costs incurred		(77,925)
Recovered from development partner		(18,140)
Year ended October 31, 2015	$	428,308
At November 1, 2015	$	428,308
Additions		167,570
Nine months ended July 31, 2016	$	595,878

Amortization

At November 1, 2014	$	107,049
Adjust for writedown		(46,088)
Amortization for the year		58,105
Year ended October 31, 2015	$	119,066
At November 1, 2015	$	119,066
Amortization for the period		71,988
Nine months ended July 31, 2016	$	191,054
Net book value at October 31, 2015	**$**	**309,242**
Net book value at July 31, 2016	**$**	**404,824**

(Expressed in United States dollars)

9. SHAREHOLDERS' EQUITY, STOCK OPTIONS, WARRANTS, LOSS PER SHARE AND BRIDGE LOANS

a) Share Capital**:**

	Number of Shares		Amount $
Balance at November 1, 2014	188,436,724	$	70,802,776
Private placement of units for cash (Note 13)	422,768		175,000
Warrants exercised (Note 13)	2,988,876		565,777
Fair value of warrants exercised	-		271,553
Options exercised	4,428,000		1,153,007
Fair value of options exercised	-		728,862
Share compensation	900,000		387,000
Balance at October 31, 2015	197,176,368	$	74,083,975
Private placement of common shares for cash (Note 13)	366,668		110,000
Shares issued	2,312,500		432,800
Options exercised	3,402,318		680,464
Fair value of options exercised	-		401,474
Share compensation	-		(85,500)
Balance at July 31, 2016	203,257,854	$	75,623,212

In the 3-month period ended July 31, 2016 the Company completed the following transactions whereby it issued shares to settle obligations:

(a) It issued 312,500 shares as part of the settlement of the legal matter described in Note 13(c);

(b) In June 2016, it issued 1 million shares to settle $170,300 of trade payables outstanding with its patent attorney and prepaid up to $200,000 of services to be rendered by the patent attorney commencing in July 2016. At July 31, 2016 it reports $176,231 as prepaid trade payables representing services to be rendered by the patent attorney after July 31, 2016. These shares have been issued by the Company and are being released in successive 250,000 share certificates as services are rendered.

(Expressed in United States dollars)

9. SHAREHOLDERS' EQUITY, STOCK OPTIONS, WARRANTS, LOSS PER SHARE AND BRIDGE LOANS (Cont'd)

b) Stock Options:

The Company did not grant any stock options during the quarters ending July 31, 2016 and 2015. The Company reports the following stock options outstanding at July 31, 2016, all of which are exercisable:

Stock options Outstanding

Date of issue	# Issued	Strike Price	Weighted average remaining life (in years)	Expiry Date
October 31, 2011	1,894,682	0.20	0.3	October 31, 2016
April 10, 2012	390,000	0.35	0.7	April 10, 2017
January 22, 2013	440,000	0.30 CDN	1.5	January 22, 2018
September 16, 2013	520,000	0.27 CDN	2.1	September 16, 2018
October 17, 2013	300,000	0.35	2.2	October 17, 2018
February 10, 2014	350,000	0.85	2.5	February 10, 2019
April 25, 2014	230,000	0.64	2.7	April 25, 2019
June 4, 2015	975,000	0.49	3.8	June 4, 2020
August 20, 2015	940,000	0.46	4.1	August 20, 2020
September 30, 2015	250,000	0.40	4.2	September 30, 2020
	6,289,682			

For the 3 months ended July 31, 2016 the Company realized $680,464 from the exercise of 3,402,318 common stock options (3 months ended July 31, 2015: $525,142 from the exercise of 2,170,000 stock options; 9 months ended July 31, 2015: $724,642 from the exercise of 2,740,000 stock options).

(Expressed in United States dollars)

9. SHAREHOLDERS' EQUITY, STOCK OPTIONS, WARRANTS, LOSS PER SHARE AND BRIDGE LOANS (Cont'd)

c) Loss Per Share:

The calculation of basic and diluted loss per share for the period ended July 31, 2016 was based on the loss attributable to common shareholders of $5,973,058 (2015 - $2,916,458) divided by the weighted average number of common shares outstanding of 198,017,961 (2015 – 191,454,573). Diluted loss per share did not include the effect of outstanding stock options as they are anti-dilutive.

d) Share Purchase Warrants:

In the 9 months ended July 31, 2015 the Company realized proceeds of $565,777 from the exercise of 2,988,876 common shares purchase warrants (2016: nil).

e) Contributed Surplus:

Balance outstanding at November 01, 2014	**$**	**27,436,678**
Stock based compensation expense relating to stock options issued		776,941
Fair value of options exercised		(728,862)
Fair value of warrants exercised		(271,553)
Balance at October 31, 2015	**$**	**27,213,204**
Fair value of options exercised		(401,474)
Balance at July 31, 2016	**$**	**26,811,730**

9. SHAREHOLDERS' EQUITY, STOCK OPTIONS, WARRANTS, LOSS PER SHARE AND BRIDGE LOANS (Cont'd)

Bridge loans:

(a) Between August-October 2015 the Company secured a series of bridge loans from investors totaling $1,287,500 CDN ($976,673 USD). The maturity dates were extended through July 1, 2016. The interest rate on the bridge loans ranges from 2% to 3% per month. One of the bridge loans in the amount of $300,000 CDN ($229,446 USD) plus accrued interest was repaid on September 4, 2015.

These investors provided two additional bridge loans in the 3 months ending January 31, 2016 to the Company totaling $272,000 CDN ($201,280 USD) at an interest rate of 3% per month. The maturity dates of these loans were extended through July 1, 2016.

In March 2016, these bridge loans totaling $1,439,917 CDN of principal and accrued interest were converted to $1,077,862 USD by the investors and consolidated into one bridge loan document. The term of the loan was extended to July 15, 2016. The interest rate was changed to 1% per month. A conversion feature was added to the bridge loan whereby the investor has the privilege but not the obligation to convert the loan at any time prior to the maturity date into common shares at a conversion price of $0.30 per share.

In July 2015, these loans were extended to October 31, 2016 with revised terms as follows: the USD loan including principal and interest of $1,120,978 was converted to $1,497,514 CDN funds; the interest rate was increased for 1% to 2% per month and the conversion price was changed from $0.30 USD to $0.25 CDN.

(b) In August 2015, the Company secured a bridge loan of $200,000 from an investor. The interest rate on the loan is calculated at 3% per month, payable monthly in arrears. On November 2, 2015, a conversion feature on the loan was added whereby the investor has the privilege but not the obligation to convert any part up to all of the debenture including accrued interest at a price not above $0.30 per share. The maturity date on this loan has since been extended, the maturity date is now set as October 31, 2016.

This investor committed an additional $300,000 USD as a convertible debenture on May 2, 2016 with the following terms: interest calculated at 3% per month, convertible at $0.30 per share at the investor's option, maturing on July 3, 2016. This loan has since been extended to October 31, 2016 on the same terms and conditions.

(c) A group of other investors provided the following bridge loans to the Company:

i. On November 30, 2015, certain of these investors provided $250,000 of convertible debentures due on March 31, 2016. The interest rate on these debentures was at a rate of 1% per month calculated on a daily basis. The investors have the privilege, but not the obligation, to convert up to 50% of the outstanding principal plus accrued interest at any time before the maturity date at a conversion price of $0.33 per share.

On May 31, 2016 these loans were extended to September 2, 2016 with revised terms as follows: the full amount of the loans is now convertible at $0.33 per share and the interest rate was increased from 1% to 2% per month. This loan has since been extended to October 31, 2016 on the same terms and conditions.

ii. On December 2, 2015, certain of these investors provided $250,000 of debentures due on April 2, 2016 which maturity dates were extended to June 2, 2016. The interest rate on these debentures was at a rate of 2% per month calculated on a daily basis.

On June 2, 2016 these loans were extended to September 2, 2016 with revised terms as follows: the interest rate of 2% per month is unchanged, a conversion privilege was added at a price of $0.33 per share. These loans have since been extended to October 31, 2016.

(d) On December 31, 2015, an investor provided a $100,000 convertible debenture due on July 1, 2016. The interest rate on this debenture was at a rate of 1% per month calculated on a daily basis. This investor has the privilege, but not the obligation, to convert the outstanding principal plus any accrued interest at any time up to the maturity date at a conversion price of $0.30 per share.

On August 2, 2016, the investor elected to convert the outstanding principal and interest of $106,970 into common shares and the Company issued 356,567 common shares to the investor.

(e) On January 8, 2016, an investor provided a $100,000 convertible debenture due on July 8, 2016. The interest rate on this debenture was at a rate of 1% per month calculated on a daily basis. The investor has the privilege, but not the obligation, to convert not less than the entire amount of the principal plus any accrued interest at any time up to the maturity date at a conversion price of $0.30 per share.

On July 8, 2016 this loan was extended to October 31, 2016 with revised terms as follows: the conversion price was changed from $0.30 to $0.20 per share and the interest rate was increased from 1% to 2% per month.

(f) On February 12, 2016, an investor provided a $500,000 US convertible debenture due on May 12, 2016. The interest rate on this debenture was at a rate of 1% per month calculated on a daily basis. This investor has the privilege, but not the obligation, to convert the outstanding principal plus any accrued interest at any time before the maturity date at a conversion price of $0.30 per share.

On May 13, 2016 this loan was extended to August 13, 2016 with revised terms as follows: the conversion feature on the loan was waived by the investor and the interest rate was revised from 1% to 3% per month. On August 13, 2016 this loan was extended to October 31, 2016 on the same terms and conditions.

(g) Between March 24-31, 2016 the Company negotiated three additional bridge loans with different investors, each loan in the amount of $30,000 with maturity dates between July 24-August 1, 2016. The interest rate on each of these loans is at a rate of 1% per month calculated on a daily basis. The investors have the privilege but not the obligation to convert up to all of the outstanding principal plus accrued interest at any time prior to maturity date at a conversion price of $0.30 per share.

On July 24, 2016 two of the three loans were extended to November 25, 2016 with revised terms as follows: the conversion price was reduced from $0.30 to $0.21 per share.

The bridge loans described above in (c) (d) (e) (f) and (g) can be prepaid, in whole or in part at any time before their respective maturity dates at the option of the Company.

The Company has calculated the equity component of the bridge loans that have conversion privileges as the difference between the fair value of the compound financial interest as a whole and the fair value of the liability component. The Company then records accretion expense over the term of the loans.

A breakdown of the outstanding bridge loans is summarized as follows:

(Expressed in United States dollars)

For the three and nine months ended July 31, 2016 and 2015

	October 31 2015	July 31, 2016
Principal	$ 1,176,673	$ 2,775,188
Interest Accrued	36,714	391,620
Interest Paid	(17,354)	(147,341)
Repayments	(229,446)	(229,446)
Accretion Expense	-	(115,629)
Equity Portion of Bridge Loan	-	115,629
	$ 966,587	$ 2,790,021

(Expressed in United States dollars)

10. INCOME TAXES

At October 31, 2015 the Company updated non-capital losses of approximately $25.2 million available to reduce future taxable income, the benefit of which has not been recognized in these consolidated financial statements. As of July 31, 2016 these losses expire as follows:

	Canada	Other foreign	Total
2022	-	7,301	7,301
2023	-	9,667	9,667
2025	-	14,471	14,471
2026	1,837,460	5,254	1,842,714
2027	1,545,159	3,459	1,548,618
2028	8,012	55,519	63,531
2029	1,583,583	463,610	2,047,193
2030	2,136,667	1,886,778	4,023,445
2031	1,287,275	48,808	1,336,083
2032	1,426,636	333,962	1,760,598
2033	1,729,223	160,550	1,889,773
2034	2,501,599	3,206,207	5,707,806
2035	2,837,402	2,146,779	4,984,181
	$ 16,893,016	$ 8,342,365	$ 25,235,381

In addition, the Company has available capital loss carry forwards of approximately $1.5 million to reduce future taxable capital gains, the benefit of which has not been recognized in these consolidated financial statements. These losses carry forward indefinitely.

The Company has $22,064,010 of Canadian denominated loss carryforwards; this balance is converted into the $US amount reported above using an average rate of exchange for translation purposes.

(Expressed in United States dollars)

11. EXPENSES

Administration

The components of general and administration expenses are as follows:

		2016		2015
General and administrative	$	148,787	$	117,882
Rent and occupancy cost		55,007		57,211
Office insurance		47,401		43,101
Telephone		8,946		13,787
Investor relations, listing and filling fees		48,622		66,884
	$	308,763	$	298,865

Professional, other fees and salaries

The components of professional, other fees and salaries expenses are as follows:

		2016		2015
Professional fees	$	263,486	$	368,688
Consulting fees		813,708		843,955
Salaries and benefits		281,885		339,535
	$	1,359,079	$	1,552,178

12. MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

The Company reports the following related party transactions:

(a) The initial Chairman of the Company stepped down in April, 2016. He received cash compensation on a month to month basis calculated at an annual rate of $150,000 CDN. The total compensation paid to the Chairman for the nine months ended July 31, 2016 was $84,889 of cash compensation and $nil of stock based compensation (2015 - $91,282 of cash compensation and $nil of stock based compensation).

(b) Management and consulting fees:
Included in professional fees, other fees and salaries as reported are management and consulting fees paid or payable to individuals (or companies controlled by such individuals) who served as officers and directors of the Company. The total compensation paid to such parties for the nine month ended July 31, 2016 was $532,974 of cash compensation and $nil of stock based compensation (2015 - $694,400 of cash compensation and $nil of stock based compensation).

(c) On February 19, 2014 the Company appointed an individual to serve as its Chief Technology Officer and also to serve as a director of the Company. Since that date, a company in which he is the major shareholder has invoiced the Company for engineering and design services as totaling $1,049,524 in the fiscal year ended October 31, 2015 and $nil in the nine months ending July 31, 2016. These charges, as incurred have been capitalized as deferred development costs.

(d) Certain officers and directors exercised a total of 3,402,318 common stock options in the 3 and 9 months ended July 31, 2016 and the Company realized proceeds of $ 680,460 (2015: for the 3-month period through July 31 1,688,000 options exercised for proceeds of 428,365; for 9-month period through July 31, 4,428,000 options exercised for proceeds of $1,153,007.

(e) A director/officer of the Company advanced $40,000 of personal funds to a trade supplier on the Company's behalf in Q3 2016.

(f) The CEO provided a $100,000 CDN bridge loan ($78,000 USD) to the Company on September 2, 2016 (Note 14).

13. COMMITMENTS AND CONTINGENCIES

(a) The Company secured new leased premises in June 2012. The lease term is for 5 years and stipulates base monthly rental expenses of $3800 CDN. Lease commitments are as follows – commitments less than one year of $38,000 CDN.

(b) The Company has certain open purchase orders to 3rd party subcontractors with respect to deferred development costs. The commitments under the purchase orders relate to work to be performed over the next 12-16 months totaling approximately $1.3 million.

(c) Legal matter:

On June 30, 2016 the Company participated in a 3rd party led mediation with respect to the previously disclosed lawsuit against Dreifus Associates Limited and Henry Dreifus ("Defendants") and the Defendants counterclaims against the Company for payments of $275,000 plus interest. The Company disputed the amounts claimed by the Defendants and sought compensation for damages it alleged that it had incurred.

The Company was successful in resolving the legal claims outstanding in the mediation. It agreed to pay $50,000 to the Defendants and issue 312,500 common shares with 6-12 months resale restrictions. The Company has now paid $30,000 and is committed to paying the remaining $20,000 in two $10,000 installments on September 29th and October 29th.

The Company has now received full assignment of the IP rights and entitlement from the Defendants. Full and final mutual releases have been executed and the action will be dismissed once the remaining payments have been made to the Defendants.

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14. SUBSEQUENT EVENTS

(a) As outlined in Note 9 the bridge loans described in Notes 9(b), 9(c)(i), 9(c)(ii) and 9(f) were extended to October 31, 2016.

The loan described in Note 9(d) was converted to common shares.

(b) On September 2, 2016 the Company secured an additional bridge loan in the amount of $100,000 CDN ($78,000 USD) due on January 2, 2017. The loan is convertible at the holder's option into common shares at an exercise price of $0.31 CDN ($0.24 USD). The interest rate on the loan is at 2% per month.

(c) On September 10, 2016 the Company secured an additional bridge loan in the amount of $50,000 CDN ($37,000 USD) due on January 2, 2017. The loan is convertible at the holder's option into common shares at an exercise price of $0.31 CDN ($0.24 USD). The interest rate on the loan is at 2% per month.

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