

Condensed Consolidated Financial Statements of
MICROMEM TECHNOLOGIES INC.

For the three and six months ended April 30, 2017 and 2016

(Expressed in United States Dollars)

MICROMEM TECHNOLOGIES INC.

Condensed Consolidated Interim Financial Statements
For the six months ended April 30, 2017

(Expressed in United States Dollars)

Notice of No Auditors Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the six months ended April 30, 2017 which have been prepared by and are the responsibility of the Company's management.

MICROMEM TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in United States dollars)

| | April 30, 2017 | October 31, 2016 |
|---|---------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 33,583 | \$ 288,128 |
| Deposits and other receivables (Note 5) | 45,039 | 33,327 |
| | <u>78,622</u> | <u>321,455</u> |
| Property and equipment, net | 12,672 | 10,988 |
| Patents, net (Note 7) | 410,178 | 403,600 |
| | <u>\$ 501,472</u> | <u>\$ 736,043</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 933,104 | \$ 917,179 |
| Bridge loans (Note 9) | 4,501,088 | 3,637,008 |
| Derivative liability (note 9) | 524,558 | 83,998 |
| | <u>\$ 5,958,750</u> | <u>\$ 4,638,185</u> |
| Shareholders' Equity | | |
| Share capital: (Note 8) | | |
| Authorized: | | |
| 2,000,000 special preference shares, redeemable, voting | | |
| Unlimited common shares without par value | | |
| Issued and outstanding: | | |
| 204,877,878 common shares (2016: 204,388,569) (Note 8) | \$ 76,102,945 | \$ 75,855,139 |
| Subscription received | 62,271 | - |
| Equity component of bridge loans (note 9) | 23,075 | 23,075 |
| Contributed surplus | 27,360,676 | 26,918,470 |
| Deficit | <u>(109,006,246)</u> | <u>(106,698,826)</u> |
| | (5,457,278) | (3,902,142) |
| | <u>\$ 501,472</u> | <u>\$ 736,043</u> |

"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 months ended April 30, 2017 and 2016 (Unaudited).

| | Three months Ended April 30 | | Six months Ended April 30 | |
|---|-----------------------------|---------------------|---------------------------|-----------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Costs and expenses : | | | | |
| Administration (Note 11) | \$ 72,132 | \$ 84,640 | \$ 146,570 | \$ 163,231 |
| Professional, other fees and salaries (Note 11) | 491,967 | 485,547 | 903,175 | 941,209 |
| Stock based compensation (Note 8) | - | - | 442,206 | (85,500) |
| Development costs, net (Note 6) | 129,399 | 2,421 | 220,857 | 3,418 |
| Travel and entertainment | 35,018 | 35,036 | 64,116 | 80,075 |
| Amortization of property and equipment | 1,060 | 1,456 | 2,124 | 2,625 |
| Amortization of patents | 31,660 | - | 61,065 | - |
| Foreign exchange (gain) loss | 91,455 | (5,381) | 97,009 | (11,582) |
| Loss from operations | 852,691 | 603,719 | 1,937,122 | 1,093,476 |
| Other income and expense | | | | |
| Interest expense | 155,473 | 92,795 | 315,114 | 210,483 |
| Accretion expense (Note 9) | 156,847 | 54,424 | 297,759 | 58,666 |
| (Gain) loss on revaluation of derivative liability (Note 9) | (1,289,544) | - | (242,576) | - |
| Net income (loss) before income taxes | 124,532 | (750,938) | (2,307,420) | (1,362,625) |
| Income taxes (Note 10) | - | - | - | - |
| Net income (loss) and comprehensive (loss) | \$ 124,532 | \$ (750,938) | \$ (2,307,420) | \$ (1,362,625) |
| Income (loss) per share - basic and diluted (Note 8) | \$ - | \$ - | \$ (0.01) | \$ (0.01) |
| Weighted average number of shares (Note 8) | 204,726,575 | 197,972,158 | 204,636,870 | 197,298,255 |

See accompanying notes.

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

For the three and six months ended April 30, 2017 and 2016 (Unaudited).

| | <u>Three Months Ended April 30</u> | | <u>Six Months Ended April 30</u> | |
|--|------------------------------------|------------------|----------------------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$ 124,532 | \$ (750,938) | \$ (2,307,420) | \$ (1,362,625) |
| Adjustments to reconcile loss for the period to net cash used in operating activities: | | | | |
| Amortization of patents intangible assets | 31,660 | - | 61,065 | - |
| Amortization of property and equipment | 1,060 | 1,456 | 2,124 | 2,625 |
| Accretion expense | 156,847 | 54,424 | 297,759 | 58,666 |
| Stock based compensation | - | - | 442,206 | (85,500) |
| (Gain) loss on revaluation of derivatives | (1,289,544) | - | (242,576) | - |
| Increase (decrease) in deposits and other receivables | (2,988) | 87,164 | (11,712) | (58,252) |
| (Decrease) increase in accounts payable and accrued liabilities | 356,516 | 162,941 | 141,448 | 292,720 |
| Net cash used in operating activities | (621,917) | (444,953) | (1,617,106) | (1,152,366) |
| Cash flows from investing activities: | | | | |
| Purchase of property and equipment | - | - | (3,807) | - |
| Patents | (52,426) | (59,758) | (67,642) | (141,452) |
| Deferred development costs | - | (195,038) | - | (904,057) |
| Recovery of deferred development costs | - | - | - | 443,901 |
| Net cash used in investing activities | (52,426) | (254,796) | (71,449) | (601,608) |
| Cash flows from financing activities: | | | | |
| Issue of common shares | 162,709 | 55,000 | 219,222 | 110,000 |
| Bridge loans advances | 325,905 | 451,402 | 992,982 | 1,359,432 |
| Bridge loan repayments | (78,175) | (41,100) | (155,580) | (63,100) |
| Bridge loans Interest accrued | 155,473 | 91,670 | 315,114 | 209,359 |
| Subscription received | 62,271 | - | 62,271 | - |
| Net cash provided by financing activities | 628,184 | 556,972 | 1,434,010 | 1,615,691 |
| Increase (decrease) in cash | (46,159) | (142,777) | (254,545) | (138,283) |
| Cash, beginning of period | 79,742 | 163,062 | 288,128 | 158,568 |
| Cash, end of period | \$ 33,583 | \$ 20,285 | \$ 33,583 | \$ 20,285 |
| Supplemental cash flow information: | | | | |
| Interest paid (classified in operating activities) | 78,175 | 41,100 | 155,579 | 63,100 |
| Shares issued on settlement of accounts payable | - | - | - | - |
| Shares issued on settlement of legal claim | - | - | - | - |
| Shares issued on conversion of bridge loan | - | - | - | - |

See accompanying notes.

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

| | Number of Shares | Share capital | Subscription received | Contributed Surplus | quity componen ¹ of Bridge loan | Deficit | Total |
|--|---------------------|----------------------|--------------------------|------------------------|---|------------------------|---------------------|
| Balance as 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 | 366,668 | 110,000 | - | - | - | - | 110,000 |
| Options exercised | 3,756,366 | 751,273 | - | - | - | - | 751,273 |
| Fair value of options exercised | - | 443,252 | - | (443,252) | - | - | - |
| Common shares issued against payable | 1,517,143 | 295,312 | - | - | - | - | 295,312 |
| Common shares issued against settlement of debt | 312,500 | 62,500 | - | - | - | - | 62,500 |
| Common shares issued for conversion of bridge loan | 509,524 | 108,827 | - | - | (1,827) | - | 107,000 |
| Equity component of bridge loans | - | - | - | - | 173,420 | - | 173,420 |
| Expiration of bridge loan equity conversion option | - | - | - | 148,518 | (148,518) | - | - |
| Treasury shares to be cancelled | 750,000 | - | - | - | - | - | - |
| Net loss and comprehensive loss | - | - | - | - | - | (6,805,535) | (6,805,535) |
| Balance at October 31, 2016 | 204,388,569 | 75,855,139 | - | 26,918,470 | 23,075 | (106,698,826) | (3,902,142) |
| Private placement of units for cash | 1,091,666 | 219,222 | - | - | - | - | 219,222 |
| Common shares issued against payable | 147,643 | 28,584 | - | - | - | - | 28,584 |
| Stock based compensation | - | - | - | 442,206 | - | - | 442,206 |
| Subscription received | - | - | 62,271 | - | - | - | 62,271 |
| Treasury shares cancelled | (750,000) | - | - | - | - | - | - |
| Net loss and comprehensive loss | - | - | - | - | - | (2,307,420) | (2,307,420) |
| Balance at April 30, 2017 | 204,877,878 | 76,102,945 | 62,271 | 27,360,676 | 23,075 | (109,006,246) | (5,457,279) |

MICROMEM TECHNOLOGIES INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

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MICROMEM TECHNOLOGIES INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
(Expressed in United States dollars)

For the three and six months ended April 30, 2017 and 2016

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 magnetic sensor applications for companies (referred to as “development partners”) operating internationally in various industry segments.

These 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 June 28, 2017.

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 significant doubt about the Company’s ability to continue as a going concern for a reasonable period of time in future. During the six months ended April 30, 2017, the Company reported a net loss and comprehensive loss of \$2,307,420 (2016 - \$1,362,625) and negative cash flow from operations

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of \$1,617,107 (2016 - \$1,152,366) measured as net loss reported with non cash expenses added back. The Company's working capital deficiency as at April 30, 2017 is \$5,355,570 excluding consideration of the non-cash derivative liability as reported (as at October 31, 2016: \$4,232,732).

The Company's success depends on the profitable commercialization of its proprietary magnetic sensor technology. There is no assurance that the Company will be successful in the profitable commercialization of its 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 2017; however, the ability of the Company to continue as a going concern is dependent upon its ability to secure additional financing and/or profitably commercialize its technology. These consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to 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 with International Financial Reporting Standards:**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent 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"). Accordingly, they do not include all of the information required for annual financial statements and should be read in conjunction with the audited annual financial statement for the year ended October 31, 2016. The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period.

b) **Basis of measurement:**

The Company's condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain non-current assets and financial statements, which are measured at fair value, as explained in Note 4, Continuity of Significant Accounting Policies.

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c) Functional and presentation currency:

These consolidated financial statements are presented in United States dollars (“U.S. dollars”), which is also the Company’s and wholly-owned subsidiaries functional currency.

d) Critical accounting Judgements, Estimates and Assumptions:

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 judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are as reported in the audited consolidated financial statements for the year ended October 31, 2016 and continue at April 30, 2017. These include estimates and assumptions utilized in determining fair values as required under IFRS, estimates related to the recovery of deferred development costs, capitalization criteria for patents, impairment of long-lived assets, deferred income taxes, functional currency and the assessment of material uncertainties.

4. CONTINUITY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PROCEDURES

a) 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, 2016 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 six month period ending April 30, 2017.

b) 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 six month period ending April 30, 2017 from those disclosed at October 31, 2016.

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c) 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 six month period ending April 30, 2017 from those disclosed at October 31, 2016.

d) 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. The Company continues to closely monitor its working capital position.

e) New standards and interpretations issued but not yet adopted: The disclosures reported at October 31, 2016 relating to IFRS 15, IFRS 9, IAS7 and IFRS 16 remain valid at April 30, 2017. The Company is currently assessing the impact of these standards which are effective for future reporting periods.

5. DEPOSITS AND OTHER RECEIVABLES

The balance reported as Deposits and other receivables consists of:

| | April 30, | October 31, |
|-----------------------------|------------------|--------------------|
| | 2017 | 2016 |
| Advances to employee | 5,655 | 7,586 |
| Prepaid insurance and other | 39,384 | 25,741 |
| | \$ 45,039 | \$ 33,327 |

As at April 30, 2017, advances to employee consisted of an advance of \$5,655 (October 31, 2016: \$7,586). This advance is non-interest-bearing, unsecured and due on demand.

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6. DEFERRED DEVELOPMENT COSTS

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

| | April 30, 2017 | October 31, 2016 |
|-----------------------------------|---------------------------|-----------------------------|
| Opening balance | \$ - | \$ 3,070,299 |
| Additional project costs incurred | - | 1,186,720 |
| Recovery of development costs | - | (643,901) |
| Writedown of project costs | - | (3,613,118) |
| Closing balance | <u>\$ -</u> | <u>\$ -</u> |

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

The Company wrote-off the capitalized cost of \$3,613,118 in the third quarter of the year ended October 31, 2016 to reduce the carrying value of those projects to a value of nil given the uncertainty of realization of these costs. The Company anticipates that it may realize commercial economic benefits from the exploitation of these development projects in the future. Development costs incurred since August 1, 2016 are charged to expense in the period incurred. In the six months ended April 30, 2017 the Company incurred \$516,857 of development costs and recovered \$296,000 from its development partners, to report net development expenses of \$220,857 in the statement of consolidated loss.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL
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7. PATENTS

Cost

| | | |
|------------------------------------|-----------|----------------|
| At November 1, 2015 | \$ | 428,308 |
| Additions | | 192,873 |
| Year ended October 31, 2016 | \$ | 621,181 |

| | | |
|--|-----------|----------------|
| At November 1, 2016 | \$ | 621,181 |
| Additions | | 67,642 |
| Six months ended April 30, 2017 | \$ | 688,823 |

Amortization

| | | |
|------------------------------------|-----------|----------------|
| At November 1, 2015 | \$ | 119,066 |
| Amortization for the year | | 98,515 |
| Year ended October 31, 2016 | \$ | 217,581 |

| | | |
|--|-----------|----------------|
| At November 1, 2015 | \$ | 217,581 |
| Amortization for the period | | 61,065 |
| Six months ended April 30, 2017 | \$ | 278,645 |

| | | |
|---|-----------|----------------|
| Net book value at October 31, 2016 | \$ | 403,600 |
| Net book value at April 30, 2017 | \$ | 410,178 |

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8. SHARE CAPITAL, STOCK OPTIONS AND LOSS PER SHARE

a) Share Capital

Authorized and outstanding:

The Company has two classes of shares as follows:

- i) Special redeemable voting preference shares, 2,000,000 authorized, none are issued and outstanding.
- ii) Common shares without par value – an unlimited number authorized.

| | Number of | | Amount |
|---|------------------|----|---------------|
| | Shares | | \$ |
| Balance at November 1, 2015 | 197,176,368 | \$ | 74,083,975 |
| Private placement of shares for cash | 366,668 | | 110,000 |
| Options exercised | 3,756,366 | | 751,273 |
| Fair value of options exercised | - | | 443,252 |
| Shares issued on settlement of accounts payable | 1,517,143 | | 295,312 |
| Shares issued on settlement of legal claim | 312,500 | | 62,500 |
| Shares issued on settlement of bridge loan | 509,524 | | 107,000 |
| Equity component of bridge loan | | | 1,827 |
| Treasury shares to be cancelled | 750,000 | | - |
| Balance at October 31, 2016 | 204,388,569 | \$ | 75,855,139 |
| Treasury shares cancelled | (750,000) | | |
| Private placement of common shares for cash | 1,091,666 | | 219,222 |
| Shares issued on settlement of accounts payable | 147,643 | | 28,584 |
| Subscription received to close in Q3 | | | 62,271 |
| Balance at April 30, 2017 | 204,877,878 | \$ | 76,102,945 |

In July 2016, the Company negotiated the settlement of a trade payable with an arm's length service provider as settlement of trade account payable in the amount of \$170,300 through the issuance of 1,000,000 common shares. The Company also issued an additional 1,000,000 common shares to settle up an additional \$200,000 of services to be rendered by the arm's length service provider between July and December, 2016. These 1,000,000 shares were held in trust by the Company to be released in tranches of 250,000 common shares as services were rendered.

Between July and September 2016, services were provided under this arrangement and the Company released 250,000 common shares as settlement of the services rendered.

In October 2016, this settlement arrangement was cancelled by mutual consent. Accordingly, the Company proceeded to return the remaining 750,000 common shares to treasury for

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cancellation. The 750,000 common shares remained outstanding as issued but not released as at October 31, 2016 and were cancelled in the quarter ending April 30, 2017.

8. SHARE CAPITAL, STOCK OPTIONS AND LOSS PER SHARE (Cont'd)

b) Stock Options

Stock option plan:

The Company has a fixed stock option plan. Under the Company's stock option plan (the "Plan"), the Company may grant options for up to 18,840,000 shares of common stock to directors, officers, employees or consultants of the Company and its subsidiaries. The exercise price of each option is equal to or greater than the market price of the Company's shares on the date of grant unless otherwise permitted by applicable securities regulations. An option's maximum term under the Plan is 10 years. Stock options are fully vested upon issuance by the Company unless the Board of Directors stipulates otherwise by Directors' resolution.

A summary of the status of the Company's fixed stock option plan through April 30, 2017 and changes during the periods is as follows:

| | Options (000) | Weighted average exercise price \$ | Proceeds realized |
|--------------------------------------|------------------|---|----------------------|
| Outstanding, November 1, 2015 | 9,817 | 0.31 | |
| Granted | - | - | |
| Exercised | (3,756) | (0.20) | 751,273 |
| Expired | (1,666) | (0.21) | |
| Outstanding, October 31, 2016 | 4,395 | 0.45 | |
| Granted | 2,890 | 0.22 | |
| Expired | (690) | (0.35) | |
| Outstanding, April 30, 2017 | 6,595 | 0.36 | |

The weighted average share price on the dates of exercise was \$0.36 (2015 - \$0.48).

During the year ended October 31, 2016 the Company issued a total of nil stock options. During the six months ended April 30, 2017 the Company issued a total of 2,890,000 stock options. All options vest immediately upon issuance.

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8. SHARE CAPITAL, STOCK OPTIONS AND LOSS PER SHARE (Cont'd)

The Company has the following stock options outstanding at April 30, 2017:

| Date of Issue | # Issued | Strike Price \$ | Weighted average remaining life (in years) | Expiry Date |
|----------------------|-----------------|------------------------|---|--------------------|
| January 22, 2013 | 440,000 | 0.30 CDN | 0.80 | January 22, 2018 |
| September 16, 2013 | 520,000 | 0.27 CDN | 1.30 | September 16, 2018 |
| February 10, 2014 | 350,000 | 0.85 | 1.70 | February 10, 2019 |
| April 25, 2014 | 230,000 | 0.64 | 1.90 | April 25, 2019 |
| June 4, 2015 | 975,000 | 0.49 | 3.00 | June 4, 2020 |
| August 20, 2015 | 940,000 | 0.46 | 3.30 | August 20, 2020 |
| September 30, 2015 | 250,000 | 0.40 | 3.40 | September 30, 2020 |
| November 7, 2016 | 2,890,000 | 0.22 | 4.60 | November 7, 2021 |
| | 6,595,000 | | | |

All outstanding options at April 30, 2017 are exercisable. In period ended January 31, 2017, the Company recorded a total expense of \$442,206 (2016 - \$nil) with respect to the issuance of options issued during the three months then ended, calculated in accordance with the Black Scholes option-pricing model.

The underlying assumptions in the Black Scholes option-pricing model were as follows:

| | |
|--|---------|
| | 2017 |
| Share price | \$ 0.22 |
| Volatility factor (based on historical \ | 102% |
| Risk free interest rate | 0.72% |
| Expected life | 5 years |
| Dividend yield | 0% |
| Forfeiture rate | 0% |

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b) Loss Per Share

The calculation of basic and diluted loss per share for the period ended April 30, 2017 was based on the loss attributable to common shareholders of \$2,307,420 (2016 - \$1,362,625) divided by the weighted average number of common shares outstanding of 204,726,575 (2016 – 197,298,255).

Diluted loss per share does not include the effect of 6,595,000 stock options outstanding as they are anti-dilutive.

9. BRIDGE LOANS

2016 Bridge Loans:

- (1) The bridge loans outstanding at October 31, 2016 and for the year then ended are summarized as below.

| | October 31, 2016 | | |
|--------------------------------|--------------------------------------|--------------------------------------|-----------|
| | \$USD denominated loans (\$US) | \$CDN denominated loans (\$US) | Total |
| Debt obligations | 853,496 | 2,783,512 | 3,637,008 |
| Equity portion of bridge loans | 23,075 | - | 23,075 |
| Derivative Liability | - | 83,998 | 83,998 |

| | Year ended October 31, 2016 | | |
|---|--------------------------------------|--------------------------------------|-----------|
| | \$USD denominated loans (\$US) | \$CDN denominated loans (\$US) | Total |
| Accretion expense | 87,184 | 427,377 | 514,561 |
| Interest expense | 193,254 | 368,354 | 561,608 |
| (Gain)/loss on extinguishment of debt | - | 8,223 | 8,223 |
| Gain/(loss) on revaluation of derivatives | - | (295,616) | (295,616) |

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- (2) The Company completed the following bridge loan transactions in the 2016 fiscal year:
- (a) It secured an additional 7 bridge loans denominated in \$USD. These loans were of a short term nature and were extended on several occasions during 2016; these loans have now been extended to June-November 2017.
- (b) It secured an additional 6 bridge loans denominated in \$CDN. These loans were of a short term nature and were extended on several occasions during 2016; these loans have now been extended to June-November 2017.

2017 Bridge Loans:

- (1) The bridge loans outstanding at April 30, 2017 and for the 6 months then ended are summarized as below:

| Six months ended April 30, 2017 | | | |
|--|--------------------------------------|--------------------------------------|-----------|
| | \$USD denominated loans (\$US) | \$CDN denominated loans (\$US) | Total |
| Debt obligations plus accrued interest | 862,129 | 3,638,959 | 4,501,088 |
| Equity portion of bridge loans | 23,075 | - | 23,075 |
| Derivative Liability | - | 524,558 | 524,558 |

| Six months ended April 30, 2017 | | | |
|---|--------------------------------------|--------------------------------------|---------|
| | \$USD denominated loans (\$US) | \$CDN denominated loans (\$US) | Total |
| Accretion expense | 11,355 | 286,404 | 297,759 |
| Interest expense | 75,701 | 239,413 | 315,114 |
| Gain (loss) on revaluation of derivatives | - | 242,576 | 242,576 |

In the quarter ending January 31, 2017, the Company secured an additional 10 bridge loans denominated in \$CDN totaling \$868,000 CDN (\$651,685 USD). The interest rate on 9 of these loans is 1% per month in each case and the conversion price to common shares is stipulated as \$0.30 CDN. The 10th bridge loan bears interest at 2% per month and is not convertible.

In the quarter ended April 30, 2017, the Company secured an additional 4 bridge loans denominated in \$CDN totaling \$444,000 CDN (\$325,905 USD). The interest rate on these loans is 1% per month in each case and the conversion price is stipulated as \$0.23 CDN.

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10. INCOME TAXES

- (a) The Company has non-capital losses of approximately \$23.9 million available to reduce future taxable income, the benefit of which has not been recognized in these consolidated financial statements. As of April 30, 2017 the tax losses expire as follows:

| | Canada | Other foreign | Total |
|------|----------------------|---------------------|----------------------|
| 2022 | - | 7,301 | 7,301 |
| 2023 | - | 9,667 | 9,667 |
| 2025 | - | 14,471 | 14,471 |
| 2026 | 1,791,571 | 5,254 | 1,796,825 |
| 2027 | 1,506,571 | 3,459 | 1,510,030 |
| 2028 | 7,812 | 55,519 | 63,331 |
| 2029 | 1,544,035 | 463,610 | 2,007,645 |
| 2030 | 2,083,306 | 1,886,778 | 3,970,084 |
| 2031 | 1,255,127 | 48,808 | 1,303,935 |
| 2032 | 1,391,007 | 333,962 | 1,724,969 |
| 2033 | 1,686,037 | 160,550 | 1,846,587 |
| 2034 | 2,439,124 | 682,878 | 3,122,002 |
| 2035 | 2,827,284 | 573,235 | 3,400,519 |
| 2036 | 2,574,031 | 580,898 | 3,154,929 |
| | <u>\$ 19,105,905</u> | <u>\$ 4,826,390</u> | <u>\$ 23,932,295</u> |

- (b) In addition the Company has available capital loss carry forwards of approximately \$1.2 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.

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11. EXPENSES

Administration

The components of general and administration expenses are as follows (6 months):

| | 2017 | 2016 |
|---|------------|------------|
| General and administrative | \$ 31,107 | \$ 46,757 |
| Rent and occupancy cost | 35,362 | 36,409 |
| Office insurance | 28,335 | 34,565 |
| Telephone | 6,698 | 6,050 |
| Investor relations, listing and filing fees | 45,068 | 39,450 |
| | \$ 146,570 | \$ 163,231 |

Professional, Other Fees and Salaries

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

| | 2017 | 2016 |
|-----------------------|------------|------------|
| Professional fees | \$ 172,322 | \$ 186,770 |
| Consulting fees | 472,683 | 568,906 |
| Salaries and benefits | 258,169 | 185,533 |
| | \$ 903,175 | \$ 941,209 |

12. MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

The Company reports the following related party transactions:

(a) Chairman:

The previous Chairman's term expired on April 26, 2016; his compensation for services rendered was extended until October 31, 2016 and was then terminated. He received cash compensation on a month to month basis totaling \$113,266 (\$CDN 150,000) in 2016 (2017: nil).

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(b) Management and consulting fees:

Included in professional fees, other fees and salaries as reported are management fees and consulting fees paid or payable to individuals (or companies controlled by such individuals) who serve as officers, directors and employees of the Company. The total compensation paid to such parties is summarized as (6 months):

| | | 2017 | | 2016 |
|---|----|---------|----|---------|
| Cash compensation | \$ | 387,945 | \$ | 345,072 |
| Less portion capitalized to deferred development costs | | - | | (4,869) |
| | | 387,945 | | 340,203 |
| Stock based compensation | | 315,968 | | - |
| | \$ | 703,913 | \$ | 340,203 |

(c) Bridge Loan:

The CEO provided a bridge loan of \$100,000 CDN on September 2, 2016, which balance is reported in Note 9(1) - 2016 Bridge Loans.

13. COMMITMENTS

The Company has extended its lease for premises through July 2022. The lease term is for 5 years and stipulates base monthly rental expenses of \$4,005 CDN. Lease commitments are as follows – commitments less than one year of \$34,202 CDN, years 2-5: \$206,136 CDN, thereafter \$36,051.

The Company has certain outstanding commitments to 3rd party subcontractors with respect to its ongoing product development initiatives. These commitments are as follows – commitments less than one year of \$2,899,593; commitments between years 2-5 of \$1,124,183. These commitments will become obligations of the Company as and when this work is commissioned to start by the Company which will be initiated once the Company secures the requisite financing.

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14. CONTINGENCIES

- (a) The Company has agreed to indemnify its directors and officers and certain of its employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims.

- (b) In addition to the above, the Company may be subject to litigation, claims and governmental and regulatory proceedings arising in the ordinary course of business. In such cases, the Company accrues a loss contingency for these matters when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

15. SUBSEQUENT EVENTS

The Company secured \$368,750 CDN (\$269,160 USD) and \$100,000 (USD) of financing through private placements in the period from May 1 – June 28, 2017.

The convertible bridge loans that had a maturity date of June 2017 have been extended through October 1, 2017.
