

Nuran Wireless Inc.
Consolidated Financial Statements
October 31, 2017 and 2016

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Raymond Chabot Grant Thornton

Independent Auditor's Report

To the Shareholders of
Nuran Wireless Inc.

Raymond Chabot Grant Thornton LLP

Suite 200
140 Grande Allée East
Québec, Quebec G1R 5P7

Telephone: 418-647-3151
Fax: 418-647-5939
www.rcgt.com

We have audited the accompanying consolidated financial statements of Nuran Wireless Inc., which comprise the consolidated statements of financial position as at October 31, 2017 and 2016 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nuran Wireless Inc. as at October 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Raymond Chabot Grant Thornton LLP

Québec
February 23, 2018

¹ CPA auditor, CA public accountancy permit no. A119912

Nuran Wireless Inc.
Consolidated Statements of Comprehensive Income
 Years ended October 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	\$	\$
Revenue (Note 24)	6,019,133	5,123,470
Cost of sales	3,158,660	2,698,123
Gross profit	<u>2,860,473</u>	<u>2,425,347</u>
Selling expenses	1,496,902	1,035,154
Administrative expenses	2,016,149	2,185,112
Financial expenses (Note 18)	1,146,346	1,063,271
Research and development costs, net of \$324,727 in tax credits (\$443,455 as at October 31, 2016)	911,945	1,186,115
	<u>5,571,342</u>	<u>5,469,652</u>
Loss before other elements and income taxes	<u>(2,710,869)</u>	<u>(3,044,305)</u>
Other elements:		
Loss on debt settlement (Notes 10 and 11)		(181,767)
Change in fair value of derivative liability (Note 12)	719,895	
Loss on cyberfraud	(12,751)	
	<u>707,144</u>	<u>(181,767)</u>
Loss before income taxes	<u>(2,003,725)</u>	<u>(3,226,072)</u>
Income taxes recovered (Note 17)		30,386
Net loss and total comprehensive income	<u>(2,003,725)</u>	<u>(3,195,686)</u>
Loss per share (Note 16)		
Basic and diluted loss per share	<u>(0.02)</u>	<u>(0.06)</u>
Weighted average number of outstanding common shares	<u>106,147,228</u>	<u>57,475,067</u>

The accompanying notes are an integral part of the consolidated financial statements.

Nuran Wireless Inc. Consolidated Statements of Changes in Equity

Years ended October 31, 2017 and 2016

	2017				2016					
	Number	Share capital \$	Contributed surplus \$	Deficit \$	Total equity \$	Number	Share capital \$	Contributed surplus \$	Deficit \$	Total equity \$
Balance as at November 1, 2016	97,134,420	18,083,539	568,467	(17,951,717)	700,289	40,471,869	9,519,073		(14,756,031)	(5,236,958)
Issue of shares (Note 13)	9,644,451	1,444,163			1,444,163	56,662,551	8,811,040			8,811,040
Share issue cost		(88,326)			(88,326)		(246,574)			(246,574)
Net loss and total comprehensive income										
Warrants (Note 14)			100,922		100,922			185,568		(3,195,686)
Non-employee share-based transaction			33,000		33,000			382,899		(3,195,686)
Employee shared-based compensation (Note 15)			6,600		6,600			568,467		(3,195,686)
Balance as at October 31, 2017	106,778,871	19,439,376	708,989	(19,955,442)	192,923	97,134,420	18,083,539	568,467	(17,951,717)	700,289
Balance as at November 1, 2015										
Issue of shares (Note 13)										
Share issue cost										
Net loss and total comprehensive income										
Warrants (Note 14)										
Employee shared-based compensation (Note 15)										
Balance as at October 31, 2016										

The accompanying notes are an integral part of the consolidated financial statements.

Nuran Wireless Inc.
Consolidated Statements of Cash Flows

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Years ended October 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	\$	\$
OPERATING ACTIVITIES		
Net loss	(2,003,725)	(3,195,686)
Non-cash flow adjustments		
Depreciation of property, plant and equipment	133,942	117,344
Depreciation of intangible assets	25,412	95,239
Write-off on intangible assets		40,811
Exchange difference on long-term debt		(2,025)
Loss on debt settlement		181,767
Non-employee share-based transaction	33,000	101,645
Employee share-based compensation	6,600	382,899
Accretion of convertible debentures (Note 12)	429,087	
Change in fair value of derivative liability (Note 12)	(719,895)	
Net change in working capital items		
Trade and other receivables	(517,826)	319,844
Scientific research and experimental development tax credits receivable	183,602	144,948
Work in progress	211,742	(211,742)
Inventories	(473,724)	178,531
Prepaid expenses	8,084	(698)
Security deposits and deposits on purchase of goods	123,704	(74,454)
Trade and other payables	553,648	83,771
Deferred revenue	(153,778)	(182,879)
Net cash from operating activities	<u>(2,160,128)</u>	<u>(2,020,685)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(256,186)	(95,130)
Purchase of intangible assets	(1,774,425)	(548,260)
Net cash from investing activities	<u>(2,030,611)</u>	<u>(643,390)</u>
FINANCING ACTIVITIES		
Net change in loan payable	(40,890)	(138,837)
Long-term debt	386,598	735,000
Repayment of long-term debt	(448,561)	(350,196)
Convertible debentures and derivative liability	3,500,000	
Convertible debentures issue costs	(163,838)	
Issue of common shares	1,068,000	2,544,409
Share issue cost	(66,915)	(162,652)
Net cash from financing activities	<u>4,234,394</u>	<u>2,627,724</u>
Net increase (decrease) in cash	43,655	(36,351)
Cash, beginning of year	<u>111,097</u>	<u>147,448</u>
Cash, end of year	<u>154,752</u>	<u>111,097</u>
Supplementary information		
Interest paid included in operating activities	626,639	220,118

The accompanying notes are an integral part of the consolidated financial statements.

Nuran Wireless Inc.
Consolidated Statements of Financial Position

October 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	\$	\$
ASSETS		
Current		
Cash	154,752	111,097
Trade and other receivables (Note 5)	1,086,092	568,266
Scientific research and experimental development tax credits receivable	441,468	502,862
Work in progress		211,742
Inventories (Note 6)	1,805,232	1,307,036
Prepaid expenses	23,792	31,876
Security deposits and deposits on purchase of goods	31,079	154,783
Current assets	<u>3,542,415</u>	<u>2,887,662</u>
Non-current		
Property, plant and equipment (Note 7)	603,226	473,632
Intangible assets (Note 8)	3,375,221	1,215,730
Non-current assets	<u>3,978,447</u>	<u>1,689,362</u>
Total assets	<u>7,520,862</u>	<u>4,577,024</u>
LIABILITIES		
Current		
Trade and other payables (Note 9)	2,704,137	1,834,958
Deferred revenue	173,504	327,282
Loan payable (Note 10)	314,430	405,320
Convertible debentures and derivative liability (Note 12)	3,715,842	
Current portion of long-term debt	126,387	59,587
Current liabilities	<u>7,034,300</u>	<u>2,627,147</u>
Non-current		
Long-term debt (Note 11)	293,639	1,249,588
Total liabilities	<u>7,327,939</u>	<u>3,876,735</u>
EQUITY		
Share capital (Note 13)	19,439,376	18,083,539
Contributed surplus (Notes 14 and 15)	708,989	568,467
Deficit	<u>(19,955,442)</u>	<u>(17,951,717)</u>
Total equity	<u>192,923</u>	<u>700,289</u>
Total equity and liabilities	<u>7,520,862</u>	<u>4,577,024</u>

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

(signed) "Martin Bedard"

Director

(signed) "Thierry Cases"

Director

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

Nuran Wireless Inc. is incorporated under the Business Corporations Act (British Columbia). Nuran Wireless Inc. and its subsidiary (together, the "Company") operate in the research, development, manufacturing and marketing of digital electronic circuits and wireless telecommunication products.

2 - GENERAL INFORMATION, STATEMENT OF COMPLIANCE WITH IFRSs AND GOING CONCERN ASSUMPTION

The Company's registered office is at 2150 Cyrille-Duquet Street, Québec, Québec G1N 2G3.

The Company's consolidated financial statements have been prepared in accordance with International Financial Accounting Standards (IFRSs). They are based on the assumption that the Company is a going concern, meaning it will be able to realize its assets and discharge its liabilities in the normal course of its operations.

In light of operating losses incurred during the year ended October 31, 2017 and the past years, there is significant doubt about the Company's ability to continue as a going concern. The Company's ability to realize its assets and discharge its liabilities depends on the continued financial support of its shareholders, the growth and profitability of the future sales of its products and the obtaining of additional financing. Adding to the above, the Company currently has a financing agreement in place for financing the invoices and purchase orders to a maximum of \$2,500,000 (Note 10). If necessary, the Company may review the prioritization and, if needed, defer some of its research and development projects.

The carrying amounts of assets, liabilities, revenues and expenses presented in the consolidated financial statements and the consolidated statements of financial position's classification have not been adjusted as would be required if the going concern assumption were not appropriate.

The consolidated financial statements for the year ended October 31, 2017 (including comparatives) were approved and authorized for issue by the board of directors on February 23, 2018.

3- SUMMARY OF ACCOUNTING POLICIES

Overall considerations

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarized below.

Basis of consolidation

The Company financial statements consolidate those of the parent company and its wholly-owned subsidiary as at October 31, 2017. The subsidiary has a reporting date of October 31.

All transactions and balances between group companies are eliminated on consolidation, including unrealized gains and losses on transactions between group companies.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the Company's functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at the exchange rates in effect at the end of the year are recognized in profit or loss.

Non-monetary items are not retranslated at the end of the year and are measured at historical cost (translated using the exchange rates at the transaction date).

Revenue

Revenue arises from the sale of goods and the rendering of services and are measured at the fair value of consideration received or receivable, excluding sales taxes.

Revenue arising from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

Revenue arising from the rendering of services is recognized when the services are provided. Consideration received prior to the services being rendered is deferred as a liability under "Deferred revenue" on the statements of financial position.

Revenue arising from the rendering of services according to long-term contracts and associated costs are recognized by reference to the stage of completion of the contract activity at the reporting date. When the Company cannot measure the outcome of a long-term contract reliably, revenue is recognized only to the extent of contract costs that have been incurred and are recoverable. Long-term service contract costs are recognized in the year in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately in profit or loss.

A long-term service contract stage of completion is assessed by management based on the hours worked over the total estimated hours of the contract.

The gross amount due from customers for contract work is presented as work in progress for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. The gross amount due to customers for contract work is presented as deferred revenue for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are initially recognized at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be operated in the manner intended by the Company's management. They are subsequently measured using the cost model, cost less accumulated depreciation and impairment losses.

Depreciation is recognized according to the following methods to write down the cost less estimated residual value, if any. The following rates are applied:

	<u>Methods</u>	<u>Rates</u>
Leasehold improvements	Straight-line	25%
Equipment and furniture, telecommunication system, furniture and fixtures	Decreasing	20%
Computer equipment and computer equipment under capital lease	Decreasing	30%

The residual value, depreciation method and useful life of each asset are reviewed at least at each financial year-end.

Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss when incurred.

Intangible assets

Recognition of intangible assets

The acquired computer software is capitalized on the basis of costs incurred to acquire and install the specific software. Trademarks acquired are recognized as intangible assets at their cost.

Expenditure on the research phase of projects is recognized as an expense as incurred. Costs that are attributable to a project's development phase are recognized as intangible assets, provided that they meet the following recognition requirements:

- The development costs can be measured reliably;
- The project is technically and commercially feasible;
- The Company intends and has sufficient resources to complete the project;
- The Company has the ability to use or sell the asset;
- The asset will generate probable future economic benefits.

Development costs not meeting these criteria for capitalization are expensed as incurred. Directly attributable costs include employee costs incurred on development along with an appropriate portion of relevant overheads.

Subsequent measurement

All intangible assets are accounted for using the cost model whereby capitalized costs (except for trademarks) are amortized over their estimated useful lives, as these assets are considered finite. The following amortization method and rate are applied:

	<u>Method</u>	<u>Rate</u>
Software	Straight-line	20%

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

As no finite useful life for trademarks can be determined, related carrying amounts are not amortized.

The residual value, depreciation method and useful life of each asset are reviewed at least at each financial year-end.

Gains or losses arising from the disposal of intangible assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss when incurred.

Impairment of property, plant and equipment and intangible assets

For impairment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. The case being, any impairment losses for cash-generating units are charged pro rata with the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Available-for-sale financial assets.

All financial assets, except for those at fair value through profit or loss, are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

All of the Company's financial assets (including cash, trade accounts receivable, security deposits and deposits on purchase of goods) are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

All income and expenses relating to financial assets are recognized in profit or loss.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, loans payable, long-term debt, the convertible debentures and its derivative liability.

Financial liabilities, except derivative liability, are measured subsequently at amortized cost using the effective interest method. Derivative liability are measured subsequently at fair value with gains or losses recognized in profit or loss.

All interest-related charges are reported in profit and loss within financial expenses.

Financial leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Company is a lessee in this type of arrangement, the related asset is recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a financial lease liability.

See property, plant and equipment's accounting policy for the depreciation methods and useful lives for assets held under financial leases. The corresponding financial lease liability is reduced by lease payments net of financial charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss as financial costs over the period of the lease.

Operating lease agreements

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. Related expenses, such as maintenance and insurance expenses, are charged as incurred.

Income taxes

The tax expense recognized in profit or loss comprises the sum of deferred taxes and current taxes not recognized directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current taxes are payable on taxable profit, which differs from profit or loss in the financial statements. The calculation of current taxes is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred taxes are not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided that those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has the right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are directly in equity, in which case the related deferred taxes are also recognized in equity.

Investment tax credits and government assistance

Investment tax credits and government assistance related to current expenses are accounted for as a reduction of research and development costs and as other revenue, respectively, while those related to the acquisition of property, plant and equipment or intangible assets are accounted for as a reduction of the cost of the related asset. Investment tax credits and government assistance are accrued in the year in which the related expenses or capital expenditures are incurred, provided that the Company is reasonably certain that the credits will be received. Investment tax credits must be examined and approved by tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Equity, reserves and dividend payments

Share capital represents the paid-up capital of shares that have been issued, net of share issue cost.

Retained earnings (deficit) include all current and prior period retained profits and losses.

Contributed surplus includes costs recognized in accordance with the share-based compensation and warrants.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Share-based compensation

The Company operates an equity-settled share-based remuneration plan for its employees, which is not cash-settled. Moreover, the Company may grant warrants to its suppliers as payment of goods and services. All goods and services received in exchange for the grant of any share-based payments are measured at their fair value.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted.

Where suppliers are rewarded share-based payments, the Company estimates the fair value of the goods or services received, unless such fair value cannot be estimated reliably. In such a case, the fair value of the goods or services is determined indirectly by reference to the fair value of the equity instruments granted.

The fair value of the equity instruments granted is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to equity in "Contributed surplus". If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of warrants or share options, the proceeds received and the compensation costs previously recorded as contributed surplus, net of any directly attributable transaction costs, are allocated to share capital.

Provisions, contingent assets and contingent liabilities

Provisions for legal disputes, onerous contracts or other claims are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the consolidated financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management and will seldom equal the estimated results. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Estimation uncertainty

Recognition of investment tax credits

Determining the amount of investment tax credits requires estimates and significant judgement as management needs to assess if research and development projects for which investment tax credits are claimed are eligible, as well as assessing if the expenses incurred are eligible.

Allowance for impairment of trade accounts receivable

Significant estimates and judgements are required in assessing the amount of allowance for impairment of trade accounts receivable.

Share-based compensation

Significant estimates and judgements are required in determining the fair value of the equity instruments granted as share-based compensation or the fair value of goods or services received. The estimated of share-based compensation requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own shares, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model (Notes 14 and 15).

Judgement

Recognition of long-term service contract revenue

Recognizing revenue derived from long-term service contracts requires significant judgement in determining milestones and percentages of completion, actual work performed and estimated costs to complete the work. Recognized amounts of revenue and related work in progress (or deferred revenue) reflect management's best estimate of each contract's outcome and stage of completion.

Going concern

The assessment of the Company's ability to continue as a going concern, to raise sufficient funds to pay for its ongoing operating expenditures and to discharge its liabilities for the ensuing year involves significant judgement based on historical experience and other factors, including the expectation of future events that are believed to be reasonable under the circumstances. See Note 2 for more information.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

3 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Determining if there are any facts and circumstances indicating an impairment loss is a subjective process involving judgement.

Derivative liability

Estimating fair value for derivative liability transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life and volatility of the conversion feature.

4 - STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have an impact on the Company's consolidated financial statements.

IFRS 15, "Revenues from Contracts with Customers"

In May 2014, the International Accounting Standards Board (IASB) published IFRS 15, which replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue-related interpretations. IFRS 15 establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized at a point in time or over time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

IFRS 9, "Financial Instruments"

In July 2014, the IASB published IFRS 9, which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

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4 - STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY (Continued)

IFRS 16, "Leases"

In January 2016, the IASB published IFRS 16 which will replace IAS 17, "Leases". IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all lease, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for assets and liabilities, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

5 - TRADE AND OTHER RECEIVABLES

	2017	2016
	\$	\$
Trade accounts receivable, gross	2,961,264	2,991,698
Allowance for credit losses	<u>(1,912,478)</u>	<u>(2,454,674)</u>
	1,048,786	537,024
Indirect taxes receivable	<u>37,306</u>	<u>31,242</u>
	<u><u>1,086,092</u></u>	<u><u>568,266</u></u>

All amounts are short-term amounts. Accordingly, the carrying amount of trade and other receivables is considered a reasonable approximation of their fair value.

All of the Company's trade and other receivables have been reviewed for indicators of impairment. Certain trade accounts receivable were found to be impaired and an allowance for credit losses of \$26,903 for the year ended October 31, 2017 (\$155,492 for the year ended October 31, 2016) has been recorded accordingly within administrative expenses.

The variation of the allowance for credit losses is presented below:

	2017	2016
	\$	\$
Opening balance	2,454,674	2,253,460
Write-off	(379,662)	80,608
Exchange difference on allowance for credit losses	(189,437)	(34,886)
Impairment loss	<u>26,903</u>	<u>155,492</u>
Closing balance	<u><u>1,912,478</u></u>	<u><u>2,454,674</u></u>

An analysis of unimpaired trade accounts receivable that are past due is presented in Note 22.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

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6 - INVENTORIES

	2017	2016
	\$	\$
Raw materials	991,678	701,835
Finished goods	813,554	605,201
	<u>1,805,232</u>	<u>1,307,036</u>

For the year ended October 31, 2017, a total of \$1,967,505 (\$1,954,854 for the year ended October 31, 2016) of inventories was included in profit or loss as an expense. This includes an amount of \$157,860 (\$61,436 for the year ended October 31, 2016) resulting from the write-down of inventories.

7 - PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment and their carrying amounts are detailed as follows:

	2017			
	Leasehold improvements	Equipment and furniture, tele- communication system, furniture and fixtures	Computer equipment	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance as at November 1, 2016	9,945	524,439	315,094	849,478
Additions	1,469	232,556	29,511	263,536
Balance as at October 31, 2017	<u>11,414</u>	<u>756,995</u>	<u>344,605</u>	<u>1,113,014</u>
Depreciation and impairment				
Balance as at November 1, 2016	6,835	192,472	176,539	375,846
Depreciation	3,155	89,649	41,138	133,942
Balance as at October 31, 2017	<u>9,990</u>	<u>282,121</u>	<u>217,677</u>	<u>509,788</u>
Carrying amount as at October 31, 2017	<u>1,424</u>	<u>474,874</u>	<u>126,928</u>	<u>603,226</u>
				2016
	Leasehold improvements	Equipment and furniture, tele- communication system, furniture and fixtures	Computer equipment	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance as at November 1, 2015	9,945	450,010	294,393	754,348
Additions		74,429	20,701	95,130
Balance as at October 31, 2016	<u>9,945</u>	<u>524,439</u>	<u>315,094</u>	<u>849,478</u>
Depreciation and impairment				
Balance as at November 1, 2015	5,799	118,783	133,920	258,502
Depreciation	1,036	73,689	42,619	117,344
Balance as at October 31, 2016	<u>6,835</u>	<u>192,472</u>	<u>176,539</u>	<u>375,846</u>
Carrying amount as at October 31, 2016	<u>3,110</u>	<u>331,967</u>	<u>138,555</u>	<u>473,632</u>

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

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7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation charges for each of the reporting periods are included in profit or loss and detailed as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Selling expenses	13,356	9,891
Administrative expenses	46,890	45,531
Research and development costs	73,696	61,922
	<u>133,942</u>	<u>117,344</u>

A portion of the Company's computer equipment is held under financial lease agreements. As at October 31, 2017, the net carrying amount of this computer equipment is \$47,998 (\$59,643 as at October 31, 2016) and is included in computer equipment. Financial lease liabilities and future minimum financial lease payments are described in Note 11.

8 - INTANGIBLE ASSETS

The Company's intangible assets and their carrying amounts are detailed as follows:

	<u>2017</u>		
	<u>Acquired software</u>	<u>Trademarks</u>	<u>Total</u>
	\$	\$	\$
Gross carrying amount			
Balance as at November 1, 2016	1,395,654	53,375	1,449,029
Additions	2,176,482	8,421	2,184,903
Write-off			
Balance as at October 31, 2017	<u>3,572,136</u>	<u>61,796</u>	<u>3,633,932</u>
Depreciation and impairment			
Balance as at November 1, 2016	233,299		233,299
Depreciation	25,412		25,412
Balance as at October 31, 2017	<u>258,711</u>		<u>258,711</u>
Carrying amount as at October 31, 2017	<u>3,313,426</u>	<u>61,796</u>	<u>3,375,221</u>
			<u>2016</u>
	<u>Acquired software</u>	<u>Trademarks</u>	<u>Total</u>
	\$	\$	\$
Gross carrying amount			
Balance as at November 1, 2015	383,183	38,837	422,020
Additions	1,053,282	14,538	1,067,820
Write-off	(40,811)		(40,811)
Balance as at October 31, 2016	<u>1,395,654</u>	<u>53,375</u>	<u>1,449,029</u>
Depreciation and impairment			
Balance as at November 1, 2015	138,060		138,060
Depreciation	95,239		95,239
Balance as at October 31, 2016	<u>233,299</u>		<u>233,299</u>
Carrying amount as at October 31, 2016	<u>1,162,355</u>	<u>53,375</u>	<u>1,215,730</u>

Nuran Wireless Inc.**Notes to Consolidated Financial Statements**

October 31, 2017 and 2016

8 - INTANGIBLE ASSETS (Continued)

All amortization charges are included within research and development costs in profit or loss.

As at October 31, 2017, software includes software under development at a cost of \$2,038,811 (\$1,052,427 as at October 31, 2016).

During the year, the Company acquired an intangible asset for the issuance of 649,450 common shares (Note 13) (2,597,800 common shares in 2016).

Income tax credits amounting to \$122,208 were accounted for as a reduction of the acquired software during the year.

9 - TRADE AND OTHER PAYABLES

	<u>2017</u>	<u>2016</u>
	\$	\$
Accounts payable and accrued liabilities		
Companies under common control	76,026	114,002
Directors	2,691	2,262
Others	2,180,830	1,240,799
Salaries and payroll deductions payable	444,590	477,895
	<u>2,704,137</u>	<u>1,834,958</u>

As at October 31, 2017, accounts payable include \$419,023 relating to intangible assets purchase.

The carrying amount of trade and other payables is considered a reasonable approximation of their fair value, given that all amounts are short-term amounts.

In 2016, the Company settled \$150,000 of accounts payable for the issuance of 1,000,000 common shares. The fair value of the shares at their date of issuance was \$160,000. A loss on debt settlement of \$10,000 was accordingly recognized in the consolidated statement of comprehensive income.

Also in 2016, following negotiation with certain suppliers, the Company converted accounts payable into long-term debt for \$794,331.

During the year, the Company settled \$13,082 of accounts payable, \$50,000 \$ of loans payable and \$199,418 of long- term debt (Notes 10 and 13) for the issuance of 1,750,000 common shares. The fair value of the shares at their date of issuance was \$280,000.

During the year, the Company settled \$90,410 of accounts payable and \$659,590 of long-term debt (Notes 11 and 12) for the issuance of convertible debentures totalling \$750,000.

Nuran Wireless Inc.**Notes to Consolidated Financial Statements**

October 31, 2017 and 2016

10 - LOANS PAYABLE

	<u>2017</u>	<u>2016</u>
	\$	\$
Loan from companies under common control (a)	<u>314,430</u>	<u>405,320</u>

Given its short-term maturity, the carrying amount of the loan receivable is considered a reasonable approximation of its fair value.

- (a) The loan from companies under common control is secured by a chattel mortgage on the universality of the Company's assets.

This loan relates to a factoring agreement for a maximum of \$2,500,000. As at October 31, 2017, the Company has \$570,727 (\$802,093 as at October 31, 2016) in accounts receivable that have been transferred in factoring to Finexcorp Inc. and 9134-8169 Québec inc., companies under common control, for which an amount of \$256,297 (\$396,773 as at October 31, 2016) has been retained as a factoring reserve.

These factoring agreements stipulate that the Company shall pay on time the government remittances and shall repay the loan received related to invoices that are past due over 105 days and 120 days, respectively. As at October 31, 2017, these terms are respected.

11 - LONG-TERM DEBT

	<u>2016</u>	<u>2016</u>
	\$	\$
Notes payable to a shareholder (a)		364,167
Term loan from Canada Economic Development (b)	373,332	400,000
Obligations under a financial lease agreement (c)	46,694	50,162
Notes payable to a company under common control, 6%, secured by a chattel mortgage on the universality of all the Company's assets (d)		494,846
	<u>420,026</u>	<u>1,309,175</u>
Current portion	<u>126,387</u>	<u>59,587</u>
	<u>293,639</u>	<u>1,249,588</u>

- (a) The notes payable was settled by the issuance of convertible debentures. For the last fiscal year, the note payable to a shareholder bore interest at 6% and had no repayment terms.
- (b) The term loan from Canada Economic Development does not bear interest, is payable in monthly instalments of \$6,667 as of June 1, 2017 and matures in May 2022.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

11 - LONG-TERM DEBT (Continued)

- (c) The first obligation under a financial lease agreement with National Leasing bears interest at a rate of 17.39%, is payable in blended monthly instalments of \$911 and matures in June 2018.

The second obligation under a financial lease agreement with National Leasing bears interest at a rate of 18.23%, is payable in blended monthly instalments of \$1,854 and matures in August 2018.

The third obligation under a financial lease agreement with RCAP bears interest at a rate of 22.67%, is payable in blended monthly instalments of \$1,247 and matures in January 2019.

The fourth obligation under a financial lease agreement with National Leasing bears interest at a rate of 24.09%, is payable in blended monthly instalments of \$376 and matures in August 2019.

Future minimum financial lease payments as at October 31, 2017 were as follows:

	Within 1 year	1 to 5 years	After 5 years	2017 Total
	\$	\$	\$	\$
Lease payments	39,716	6,978		46,694
Financial charges	5,579	522		6,101
Net present values	45,295	7,500		52,795

The lease agreement includes fixed lease payments and a purchase option at the end of the term.

- (d) The notes payable to a company under common control was settled by the issuance of convertible debentures (Note 12) and share capital (Note 13).

Using discount rates of 9% and 12%, based on the Company's estimated incremental borrowing rates for secured and unsecured loans at the reporting date, respectively, and therefore reflecting the Company's credit position, the fair value of the long-term debt is estimated by discounting the estimated future cash outflows and totals \$239,894 (\$1,112,536 as at October 31, 2016).

On December 22, 2015, the Company closed a non-brokered private placement of debentures for gross proceeds of \$735,000. For each \$0.30 of the debenture amount, debenture holders received one whole share purchase warrant exercisable for a period of 24 months following closing at a price of \$0.45 (Note 14).

On April 19, 2016, the Company amended the debenture agreement by replacing the initial maturity agreement and extending the maturity date to June 22, 2016, without penalty or prepayment premium. For each \$0.30 of the debenture amount, debenture holders received one whole share purchase warrant exercisable for a period of 24 months following closing at a price of \$0.45 (Note 14).

Upon maturity, an amount of \$415,305 of those debentures was settled by the issuance of 2,768,689 common shares. In 2016, the Company also converted a \$5,000,000 debt into 33,333,333 common shares. The fair value of the shares at their date of issuance totalled \$5,587,072. A loss on debt settlement of \$171,767 is accordingly recognized in the consolidated statement of comprehensive income.

Nuran Wireless Inc.**Notes to Consolidated Financial Statements**

October 31, 2017 and 2016

12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

As at October 31, 2017, the convertible debentures and derivative liability consists of:

	<u>Convertible debentures</u>	<u>Derivative liability</u>	<u>Total</u>
	\$	\$	\$
Issuance of convertible debentures, net of transaction costs	3,336,162		3,336,162
Issuance of convertible debentures to settle loans payable	750,000		750,000
Non cash transaction costs - Broker Warrants	(79,512)		(79,512)
Fair value of the conversion option	(812,791)	812,791	
Accretion	429,087		429,087
Change in fair value of derivative liability		(719,895)	(719,895)
Closing balance, as at October 31, 2017	<u>3,622,946</u>	<u>92,896</u>	<u>3,715,842</u>

On February 23, 2017, the Company issued senior secured convertible debentures for cash proceeds of \$3,500,000. On the same date, the Company also issued senior secured convertible debentures with a fair value of \$750,000 to settle long-term debts, accounts payable and loans payable (see Notes 9, 10 and 11). Each debenture matures on August 23, 2018 and bears interest at 12% per annum.

The principal amount is convertible, at the option of the debenture holder into common shares of the Company at any time before the maturity date at a price of \$0.25 per common share. The conversion price is subject to adjustment in the event the Company issues common shares at a price below \$0.25 per share while the debentures are outstanding (hereafter "down round adjustment provision"). The Company is entitled to prepay the full amount of the debentures without penalty.

The debenture holders also received 8,500,000 share purchase warrants "A" (hereafter "A warrants") and 8,500,000 share purchase warrants "B" (hereafter "B warrants"). Each A warrant entitles the holder to acquire one common share at a price of \$0.30 per share until February 23, 2019 and each B warrant entitles the holder to acquire one common share at a price of \$0.45 per share until February 23, 2020. For the B warrants, in the event the closing price of a common share of the Company on the Canadian Securities Exchange is \$0.60 or greater during any 20 consecutive trading days period at any time until February 23, 2019, the B warrants will expire at the sole discretion of the Company.

In accordance with IFRS, because of the down round adjustment provision, the conversion option is a derivative liability measured at fair value with changes in fair value recognized in the consolidated statements of comprehensive income at each period-end. The derivative liability can only be converted into the Company's equity instruments when the convertible debentures are converted, or will be extinguished on the repayment of the debentures, and will not result in any additional cash outflows by the Company.

The initial fair value of the derivative liability was estimated at \$812,791, which was derived using a Black-Scholes option pricing model with the following assumptions:

Share price	\$0.24
Time to maturity	1.5 years
Risk-free rate	0.73%
Expected volatility	75.00%
Dividend yield	nil
Dilution factor	23.7%

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

12 - CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (Continued)

The value assigned to the convertible debentures liability represents the residual amount of the proceeds over the fair value of the derivative liability. No value was assigned to the A and B warrants, which are classified in equity.

The Company incurred \$243,350 in transactions costs, which are comprised of \$163,838 in cash and \$79,512 in broker warrants (see Note 14).

The fair value of the derivative liability as of October 31, 2017 was estimated at \$92,896, which was derived using a Black-Scholes option pricing model with the following assumptions:

Share price	\$0.14
Time to maturity	0.8 years
Risk-free rate	1.3%
Expected volatility	75.00%
Dividend yield	nil
Dilution factor	23.7%

The fair value of the conversion option is a Level 3 fair value measurement (Note 22). The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the dilution factor.

13 - SHARE CAPITAL

The Company's share capital consists only of fully paid shares of each of the following categories, each of an unlimited amount and without nominal value.

Common shares, voting and participating

Preferred shares

	<u>2017</u>	<u>2016</u>
	\$	\$
Common shares (a)	<u>19,439,376</u>	<u>18,083,539</u>

(a) The number of issued common shares totals 106,778,871 as at October 31, 2017 (97,134,420 as at October 31, 2016).

On April 6, 2016 and August 10, 2016, Nuran issued respectively 1,948,350 and 649,450 common shares under the terms of an intangible asset purchase agreement. This share issue, as well as the related intangible asset acquired, was recognized at the fair value of the shares at the date the Company obtained the related intangible assets of \$519,560.

On July 12, 2016, the Company completed a private placement of 50,430,417 shares at a price of \$0.15 per share for total gross proceeds of \$7,382,796 (including 37,102,022 common shares with a fair value of \$5,745,070 at their date of issuance as redemption of trade accounts payable, long-term debt and debentures totalling \$5,563,303, as described in Notes 10 and 11).

On September 20, 2016, the Company completed a private placement of 3,634,333 shares at a price of \$0.15 per share for total gross proceeds of \$545,150.

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

October 31, 2017 and 2016

13 - SHARE CAPITAL (Continued)

On November 16, 2016, Nuran closed an additional portion of its previously-announced brokered private placement of 7,058,000 common shares at a price of \$0.15 for aggregate gross proceeds of \$1,058,700, in accordance with the terms of the agency agreement effective as of July 12, 2016 with the agent.

On December 1, 2016, the Company completed a debt settlement agreement with a company controlled by directors pursuant to which the Company settled \$262,500 of outstanding shareholder loans and payables in consideration of the issuance of 1,750,000 common shares. The fair value of the shares at their issuance date was \$262,500.

On December 2, 2016, the Company issued 649,450 common shares under the terms of an intangible asset purchase agreement. This share issue, as well as the related intangible asset acquired, was recognized at the fair value of the shares at the date the Company obtained the related intangible assets of \$113,654.

In connection with the issuance of the convertible debentures (Note 12), 125,000 common shares were issued to the debentures holders. No value was assigned to these shares.

During the year, 62,000 shares were issued following the exercise of warrants (Note 14).

Private placement expenses relating to the above-mentioned offerings totalled \$88,326 (\$246,574 in 2016), of which a \$21,410 (\$83,922 in 2016) amount was paid by the issue of warrants (Note 14).

14 - WARRANTS

The following is a summary of the activity of warrants:

	2017	
	Number of warrants	Weighted average exercise price
		\$
Opening balance	6,033,412	0.40
Granted during the period	18,107,240	0.37
Exercised during the period	(62,000)	0.15
Closing balance, as at October 31, 2017	<u>24,078,652</u>	<u>0.37</u>
		2016
	Number of warrants	Weighted average exercise price
		\$
Opening balance		
Granted during the period	6,033,412	0.40
Closing balance, as at October 31, 2016	<u>6,033,412</u>	<u>0.40</u>

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

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14 - WARRANTS (Continued)

The following is a summary of warrants outstanding, all of which are exercisable, as at October 31, 2017:

Exercise Price	Quantity	Weighted average contractual life (years)
\$0.15	1,389,854	0.82
\$0.25	740,800	0.81
\$0.30	8,500,000	1.32
\$0.45	13,447,998	1.57
	<u>24,078,652</u>	<u>1.42</u>

As stated in Note 12, the Company closed on December 22, 2015 a non-brokered private placement of debentures for gross proceeds of \$735,000, for which debenture holders received one whole share purchase warrant for each \$0.30 of the debenture amount, exercisable for a period of 24 months following closing at a price of \$0.45.

On April 19, 2016, the Company amended the debentures agreement by replacing initial maturity agreement and extending maturity date to June 22, 2016, without penalty or prepayment premium. For each \$0.30 of the debenture amount, debenture holders received one whole share purchase warrant exercisable for a period of 24 months following closing at a price of \$0.45. No warrant shall be exercisable until it has vested. The warrants shall vest as follows (i) 33.33% on the date of the Amending Agreement; (ii) 33.33% on May 22, 2016 if the outstanding amount has not been paid to the holder by such date; and (iii) 33.34% on June 22, 2016 if the outstanding amount has not been paid to the holder by such date.

On July 12, 2016, the Company entered into an agency agreement pursuant to which the agent and certain sub-agents received an aggregate cash commission of \$129,540 and an aggregate of 864,667 warrants, with each warrant entitling the holder to acquire an additional common share at an exercise price of \$0.15 per share for a period of 24 months following the closing date.

On September 20, 2016, the Company entered into an agency agreement pursuant to which the agent and certain sub-agents received an aggregate cash commission of \$33,112 and an aggregate of 220,747 warrants, with each warrant entitling the holder to acquire an additional common share at an exercise price of \$0.15 per share for a period of 24 months following the closing date.

The warrants were assigned a value of \$185,568 (of which \$83,922 relates to the issue of shares and \$101,646 to the debentures) using the Black-Scholes option pricing model and the following weighted-average assumptions: risk free interest rate of 0.48% to 0.58%; expected volatility of 75%; expected dividend yield of 0%; expected life of two years and exercise price of \$0.40. The weighted-average fair value of the common shares upon issuance of the warrants is \$0.20. Expected volatility was based on the historical volatility of other comparable listed companies for a period that is generally commensurate with the expected option term.

In connection with the closing of the November 16, 2016 offering described in Note 12, the agent and certain sub-agents received an aggregate commission of 366,440 warrants, with each warrant entitling the holder to acquire an additional common share at an exercise price of \$0.15 per common share for a period of 24 months following the closing date.

Nuran Wireless Inc.

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14 - WARRANTS (Continued)

The warrants were assigned a value of \$21,410 using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 1.48%; expected volatility 75%; expected dividend yield of 0%; expected life of two years and a share price of \$0.15. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.19.

In connection to the issuance of the convertible debentures, 8,500,000 share purchase warrants "A" (hereafter "A warrant") and 8,500,000 share purchase warrant "B" (hereafter "B warrant") were issued (see Note 12).

740,800 broker warrants were issued in connection to the issuance of the convertible debentures (see Note 12). Each broker warrant is exercisable into (a) one common share; (b) one half of one A warrant; and (c) one half of one B warrant, at an exercise price of \$0.25 per broker warrant, until February 23, 2019.

The warrants were assigned a value of \$79,512 using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 0.76% to 0.91%; expected volatility 75%; expected dividend yield of 0%; expected life of two to three years and an share price of \$0.24. Expected volatility was based on the historical volatility of other comparable listed companies. The share price upon issuance was \$0.24.

In total, a \$101,645 amount in 2016 of financial expense (all of which related to equity-settled share-based payment transactions) has been included in profit or loss and credited to contributed surplus.

15 - OPTIONS

In 2016, the Company implemented a stock option plan for its employees, officers, directors and consultants for up to 10% of the issued and outstanding shares at the grant date. The maximum number set by the Board of Directors as at October 31, 2016 was 4,510,000 options. The exercise price of each option is equivalent to the price set at the time that each option is awarded. This price cannot be less than the share price at the grant date. Each option has a maximum term of five years and stock options can be only be settled by issuance of share capital.

On July 12, 2016, under the terms of the stock option agreement, the Company agreed to grant 4,510,000 options at an exercise price of \$0.20 per option shares.

On April 14, 2017, the Company agreed to authorize and grant a further 825,000 options at an exercise price of \$0.30 per option shares.

Nuran Wireless Inc.
Notes to Consolidated Financial Statements

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15 - OPTIONS (Continued)

The following is a summary of the activity of stock options:

	<u>Number of options</u>	<u>2017 Weighted average exercise price</u> \$
Opening balance	4,510,000	0.20
Granted during the period	825,000	0.30
Forfeited	(25,000)	0.30
Closing balance, as at October 31, 2017	<u>5,310,000</u>	<u>0.22</u>
		<u>2016</u>
	<u>Number of options</u>	<u>Weighted average exercise price</u> \$
Opening balance		
Granted during the period	<u>4,510,000</u>	<u>0.20</u>
Closing balance, as at October 31, 2016	<u>4,510,000</u>	<u>0.20</u>

The following is a summary of stock options outstanding and exercisable as at:

	<u>Options outstanding</u>		<u>Options exercisable</u>	
	<u>Number</u>	<u>Weighted average contractual life (years)</u>	<u>Number</u>	<u>Weighted average contractual life (years)</u>
October 31, 2017				
Exercise price				
\$0.20	4,510,000	3.7	4,510,000	3.7
\$0.30	800,000	2.5	600,000	2.0
	<u>5,310,000</u>		<u>5,110,000</u>	
October 31, 2016				
Exercise price				
\$0.20	<u>4,510,000</u>	4.7	<u>4,510,000</u>	4.7

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15 - OPTIONS (Continued)

The fair values of options granted were determined using the Black-Scholes pricing model that takes into account factors specific to the share incentive plans, such as the vesting period. The following principal weighted assumptions were used in the valuations.

	<u>2017</u>	<u>2016</u>
Share price at grant date	\$0.24	\$0.15
Volatility	75.00%	75.00%
Options life	3.2 years	5 years
Dividend yield	0.0%	0.0%
Risk-free investment rate	0.82%	0.60%
Fair value at grant date	\$0.06	\$0.08
Exercise price at grant date	\$0.30	\$0.20

The underlying expected volatility was determined by reference to historical volatility of other comparable listed companies for a period that is generally commensurate with the expected option term. No special features inherent to the options granted were incorporated into measurement of fair value.

In total, a \$39,600 (\$382,899 in 2016) amount of employee remuneration expense and consultation fees (all of which related to equity-settled share-based payment transactions) has been included in profit or loss and credited to contributed surplus.

16 - LOSS PER SHARE

Basic and diluted loss per share have been calculated based on the net loss available for common shareholders by the weighted average number of common shares outstanding during the period. There were no adjustments to the numerator and denominator of basic earnings used in calculating diluted earnings.

Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Notes 14 and 15.

17 - INCOME TAXES

Current tax expense

The reconciliation of income taxes computed at the Canadian statutory rates with the income tax expense recorded is as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Income tax recovery calculated on the basis of the statutory rate in Canada of 26.82% (26.9% in 2016)	(537,399)	(867,813)
Increase (decrease) of the following items:		
Non-deductible expenses	18,192	160,869
Change in unrecognized deferred tax assets	1,699,709	516,392
Adjustment from tax agency to the unused research and development expenses	(859,418)	
Change in the future statutory rate	(137,540)	
Income taxes recovered from prior years		(30,386)
Other	(183,544)	190,852
Income tax expense in the statements of comprehensive income	<u><u>(183,544)</u></u>	<u><u>(30,086)</u></u>

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17 - INCOME TAXES (Continued)

The major component of tax reconciliation of the expected tax expense based on the domestic tax rate for the Company (26.82% in 2017, 26.9% in 2016) and the reported tax expense in profit or loss (nil for each of the reporting years) is the increase of unused tax losses and deductible temporary differences for which no deferred tax assets are recognized and prior year adjustment.

Deferred income taxes

Unrecognized deductible temporary differences and unused tax losses consist of the following:

	<u>2017</u>	<u>2016</u>
	\$	\$
Property, plant and equipment and intangible assets		(57,812)
Research and development expenses (b)	9,453,317	4,099,895
Convertible debentures and derivative liability	534,158	
Unused tax losses (c)	26,669,269	23,975,667
Financing expenses	819,032	566,402
Charitable donations carried forward	52,418	53,347
Unrecognized deferred tax assets	<u>37,528,194</u>	<u>28,637,499</u>

(b) Temporary differences from unused research and development expenses shown in this table are those from the federal. For the provincial, the differences total \$9,516,423 as at October 31, 2017 and \$9,892,457 as at October 31, 2016.

(c) The Company has unused tax losses from its operations totalling \$26,669,269 for the federal and \$26,648,130 for the provincial that may be carried forward and applied against taxable income over the following years:

	<u>Federal</u>	<u>Provincial</u>
	\$	\$
Years ending October 31		
2026	4,002,728	4,002,728
2027	7,111,602	7,111,602
2028	839,160	839,160
2029	1,011,425	1,011,425
2030		
2031	1,733,354	1,733,354
2032	319,624	319,624
2033	1,909,838	1,915,411
2034	5,191,898	5,163,379
2035	203,350	204,894
2036	1,633,722	1,633,586
2037	<u>2,712,568</u>	<u>2,712,967</u>
	<u>26,669,269</u>	<u>26,648,130</u>

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18 - FINANCIAL EXPENSES

Financial costs consist of the following:

	<u>2017</u>	<u>2016</u>
	\$	\$
Foreign exchange loss	100,027	298,947
Factoring fees	196,904	351,487
Bank charges	12,618	12,782
Financing cost		119,935
Interest expenses for financial liabilities at amortized cost		
Current liabilities	7,634	13,915
Non-current liabilities and convertible debentures	818,341	261,902
	<u>1,135,524</u>	<u>1,058,968</u>
Interest expense on financial lease agreements	10,822	4,303
	<u><u>1,146,346</u></u>	<u><u>1,063,271</u></u>

19 - EMPLOYEE REMUNERATION

Expenses recognized for employee benefits such as wages, salaries and social security costs total \$2,935,540 for the year ended October 31, 2017 (\$3,216,811 for the year ended October 31, 2016).

20 - OPERATING LEASES

The Company leases an office and furniture under operating leases. The future lease payments are as follows:

	<u>\$</u>
Years ending October 31	
2018	311,156
2019	4,080
2020	680
	<u><u>315,916</u></u>

The office's lease agreement expires in January 2018 and in October 2018 and the furniture's lease agreement expires in January 2020.

The lease expense during the period amounts to the following, representing the minimum lease payments:

	<u>2017</u>	<u>2016</u>
	\$	\$
	<u><u>176,619</u></u>	<u><u>167,063</u></u>

Also, under a software license agreement, the Company committed to pay annual subscription fees for an amount of \$60,000 and royalties of US\$20 or US\$30 for each unit of license products sold.

21 - RELATED PARTY TRANSACTIONS

The Company's related parties include companies under common control as well as key management personnel.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

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21 - RELATED PARTY TRANSACTIONS (Continued)

Transactions with key management personnel

The Company's key management consists of the directors and executives. The key management personnel remuneration totals \$495,450 for the year ended October 31, 2017 (\$473,450 for the year ended October 31, 2016).

Other related party transactions

During the year, the Company entered into the following transactions with related parties:

	<u>2017</u>	<u>2016</u>
	\$	\$
Companies under common control		
Administrative expenses	247,476	226,872
Financial expenses	234,480	461,940

Convertible debentures (including derivative liability) owed by a company under common control total \$306,011 as at October 31, 2017.

22 - FINANCIAL INSTRUMENTS RISK

Risk management objectives and policies

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated by its executives, and focuses on actively securing the Company's short to medium-term cash flows.

The Company does not actively engage in the trading of financial assets for speculative purposes and it does not write options.

The carrying amounts of the Company's financial assets and liabilities by category are as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Financial assets classified as loans and receivables		
Cash	154,752	111,097
Trade accounts receivable	1,048,786	537,024
Security deposits and deposits on purchase of goods	31,079	154,783
	<u>1,234,617</u>	<u>802,904</u>
	<u>2017</u>	<u>2016</u>
	\$	\$
Financial liabilities carried at amortized cost		
Trade accounts payable	2,259,547	1,357,063
Loans payable	314,430	405,320
Convertible debentures	3,622,946	
Long-term debt	420,026	1,309,175
	<u>6,616,949</u>	<u>3,071,558</u>

Nuran Wireless Inc.

Notes to Consolidated Financial Statements

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22 - FINANCIAL INSTRUMENTS RISK (Continued)

	<u>2017</u>	<u>2016</u>
	\$	\$
Financial liabilities carried at fair value through profit or loss		
Derivative Liability	92,896	

– Derivative liability sensitivity:

The fair value of the derivative liability (Note 12) is estimated using a Black-Scholes option pricing model, the most volatile significant input being the share value at valuation date. As at October 31, 2017, an increase of \$0.10 of the share value would have increased the derivative liability by \$420,789. A decrease of \$0.10 of the share value would have decreased the derivative liability by \$92,633.

The most significant financial risks to which the Company is exposed are described below.

Market risk analysis

The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk and foreign currency risk which result from its operating and financing activities.

– Interest rate risk and interest rate sensitivity:

The Company is exposed to changes in market interest rates through its loan payable at a variable interest rate.

A change in interest rates of 1% is considered to be reasonably possible based on the observation of current market conditions. Such a change in interest rates would not have a significant impact on the Company's loss or deficit for each reporting period.

– Foreign currency risk and foreign currency sensitivity:

The exposure to currency exchange rate fluctuations arises from the Company's sales and expenses outside Canada, which are primarily denominated in US dollars.

To mitigate the Company's exposure to foreign currency risk, non-Canadian cash flows are monitored, but no forward exchange contracts or other derivative financial instruments are entered into.

Foreign currency-denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management, translated into Canadian dollars at the closing rate:

	<u>2017</u>	<u>2016</u>
	\$	\$
Cash	136,895	72,259
Trade accounts receivable and deposits	1,001,630	638,068
Trade and other payables	1,606,958	737,059

A change in exchange rates of 5% is considered to be reasonably possible based on the observation of current market conditions and the market risk volatility in exchange rates in the previous 12 months. All other things being equal, such a change in exchange rates would have increased or decreased the net loss and deficit of \$23,400 for the year ended October 31, 2017 (\$1,300 for the year ended October 31, 2016) based on the Company's foreign currency financial instruments held at each reporting date.

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22 - FINANCIAL INSTRUMENTS RISK (Continued)

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk mainly due to trade accounts receivable from its customers. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized as at its reporting date.

The Company continuously monitors defaults of customers, and incorporates this information into its credit risk controls.

The Company's management considers that all of its financial assets that are not impaired or past due are of good credit quality. As at its reporting date, the Company has certain trade accounts receivable that have not been settled by the contractual due date but that are not considered to be impaired. The amounts analyzed by the length of time past due are the following:

	<u>2017</u>	<u>2016</u>
	\$	\$
No more than three months	800,757	382,290
More than three months but no more than six months	11,680	8,826
More than six months but no more than one year	201,281	94,650
More than one year	35,068	51,258
	<u>1,048,786</u>	<u>537,024</u>

As at October 31, 2016, there were disputes for the recovery of receivables in connection with work carried out by the Company. The total value of these claims were \$111,658. No receivables were recorded by the Company. Management has taken steps to recover these amounts, but neither the possible outcome nor the amount of possible settlements can be foreseen.

The Company is exposed to a credit risk concentration because 66% of its trade accounts receivable are due from three customers (49% from three customers as at October 31, 2016).

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk analysis

Liquidity risk is the risk that the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring forecasts of cash inflows and outflows due in day-to-day business. Net cash requirements on day-to-day, week-to-week and 30-day projections are compared to available borrowing facilities in order to determine headroom or any shortfalls.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade accounts receivables. The Company's existing cash resources and its trade accounts receivable are insufficient to cover the current cash outflow requirement and, therefore, the Company is actively exploring possible sources of financing on the market. Cash flows from trade and other receivables are all contractually due within six months.

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22 - FINANCIAL INSTRUMENTS RISK (Continued)

The Company's financial liabilities have contractual maturities (including interest payments, where applicable) which are summarized below:

	2017				
	Within 6 months	Current 6 to 12 months	1 to 5 years	Non-current Later than 5 years	Total
	\$	\$	\$	\$	\$
Trade and other payables	2,259,547				2,259,547
Loans payable	314,430				314,430
Long-term debt	73,001	58,932	294,152		426,085
Convertible debentures	256,421	4,454,291			4,710,712
	<u>2,903,399</u>	<u>4,513,223</u>	<u>294,152</u>		<u>7,710,774</u>
					2016
	Within 6 months	Current 6 to 12 months	1 to 5 years	Non-current Later than 5 years	Total
	\$	\$	\$	\$	\$
Trade and other payables	1,357,063				1,357,063
Loans payable	405,320				405,320
Long-term debt	42,358	75,693	1,202,939	46,649	1,367,639
	<u>1,804,741</u>	<u>75,693</u>	<u>1,202,939</u>	<u>46,649</u>	<u>3,130,022</u>

These amounts reflect the contractual undiscounted cash flows, and therefore may differ from the carrying amounts of the liabilities at the reporting date.

Fair value

Financial assets and financial liabilities measured at amortized cost which fair value is disclosed in the statements of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

All of the Company's financial liabilities are included into level 2, except the Derivative Liability that is included in Level 3. The fair value was determined based on discounted cash flows using effective interest rates available to the Company at the closing date for similar instruments, except for the Derivative Liability (Note 12).

Nuran Wireless Inc.**Notes to Consolidated Financial Statements**

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23 - CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to its shareholders by pricing its services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity and management assesses the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. In order to adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

24 - SEGMENT INFORMATION

The Company has examined its activities and has determined that, based on information reviewed on a regular basis by the main decision-makers, it has a single reportable segment.

The following information provides the required entity-wide disclosures:

	<u>2017</u>	<u>2016</u>
	\$	\$
Rendering of services	2,236,852	1,029,703
Sale of goods	3,782,281	4,093,767
Total	<u>6,019,133</u>	<u>5,123,470</u>

The Company's revenue from external customers is divided into the following geographical areas:

	<u>2017</u>	<u>2016</u>
	\$	\$
Canada	248,322	171,278
United States	3,454,905	2,865,787
Other countries	2,315,906	2,086,405
Total	<u>6,019,133</u>	<u>5,123,470</u>

The Company is exposed to a credit risk concentration because 30% of its revenues are from one customer for the year ended October 31, 2017 (35% from three customers for the year ended October 31, 2016).

All of the Company's non-current assets are located in Canada.