# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## COUNTERPATH CORP

### Form: 10-Q

### Date Filed: 2016-12-14

Corporate Issuer CIK: 1236997

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **October 31, 2016**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number **001-35592**

# COUNTERPATH CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Nevada** | **20-0004161** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada V7X 1M3**

(Address, including zip code, of principal executive offices)

**(604) 320-3344**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ] |
| Non-accelerated filer [ ] (Do not check if a smaller reporting company) | Smaller reporting company [X] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,552,848 shares of common stock issued and outstanding as of December 13, 2016.

## INDEX

## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements.**

It is the opinion of management that the interim consolidated financial statements for the quarter ended October 31, 2016 include all adjustments necessary in order to ensure that the interim consolidated financial statements are not misleading.

The interim consolidated financial statements are stated in United States dollars and are prepared in accordance with generally accepted accounting principles in the United States of America.

**COUNTERPATH CORPORATION**
**INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**October 31, 2016**
**(Unaudited)**
(Stated in U.S. Dollars)

**COUNTERPATH CORPORATION**
**INTERIM CONSOLIDATED BALANCE SHEETS**
(Stated in U.S. Dollars)

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| **Assets** | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,919,765 | $ 2,159,738 |
| Accounts receivable (net of allowance for doubtful accounts of $370,569 and $547,173, respectively) | 2,990,040 | 3,209,279 |
| Prepaid expenses and deposits | 109,866 | 184,644 |
| Total current assets | 5,019,671 | 5,553,661 |
| | | |
| Deposits | 92,819 | 93,868 |
| Equipment | 143,371 | 142,563 |
| Goodwill – Note 2(e) | 6,556,815 | 7,001,228 |
| Other assets | 178,042 | 174,811 |
| Total Assets | $ 11,990,718 | $ 12,966,131 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,873,993 | $ 1,943,108 |
| Accrued warranty | 59,765 | 61,356 |
| Customer deposits | 7,719 | 2,384 |
| Unearned revenue | 2,128,837 | 1,808,857 |
| Total current liabilities | 4,070,314 | 3,815,705 |
| | | |
| Deferred lease inducements | 28,284 | 35,379 |
| Unrecognized tax benefit | 10,563 | 10,563 |
| Total liabilities | 4,109,161 | 3,861,647 |
| | | |
| Stockholders' equity – Note 5: | | |
| Preferred stock, $0.001 par value | | |
| Authorized: 100,000,000 | | |
| Issued and outstanding: October 31, 2016 – nil; April 30, 2016 – nil | – | – |
| Common stock, $0.001 par value – Note 5 | | |
| Authorized: 10,000,000 | | |
| Issued and outstanding: | | |
| October 31, 2016 – 4,553,548; April 30, 2016 – 4,542,348 | 4,554 | 4,542 |
| Treasury stock | (1) | – |
| Additional paid-in capital | 70,622,354 | 70,065,082 |
| Accumulated deficit | (58,950,431) | (58,022,500) |
| Accumulated other comprehensive loss – currency translation adjustment | (3,794,919) | (2,942,640) |
| Total stockholders' equity | 7,881,557 | 9,104,484 |
| Liabilities and Stockholders' Equity | $ 11,990,718 | $ 12,966,131 |
| | | |
| Commitments – Note 7 | | |
| Contingencies – Note 8 | | |

*See accompanying notes to the interim consolidated financial statements*

**COUNTERPATH CORPORATION**
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**
(Stated in U.S. Dollars)
(Unaudited)

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue – Note 6: | | | | |
| Software | $ 1,242,860 | $ 1,753,129 | $ 2,898,863 | $ 2,953,978 |
| Subscription, support and maintenance | 957,891 | 875,901 | 1,913,187 | 1,714,039 |
| Professional services and other | 550,362 | 400,309 | 965,057 | 718,568 |
| Total revenue | 2,751,113 | 3,029,339 | 5,777,107 | 5,386,585 |
| Operating expenses: | | | | |
| Cost of sales (includes depreciation of $3,390 (2015 – $3,612)) | 476,547 | 495,633 | 973,663 | 977,565 |
| Sales and marketing | 988,540 | 1,034,349 | 1,950,409 | 2,221,382 |
| Research and development | 1,150,515 | 1,116,456 | 2,309,176 | 2,400,646 |
| General and administrative | 871,608 | 771,135 | 1,853,079 | 1,711,763 |
| Total operating expenses | 3,487,210 | 3,417,573 | 7,086,327 | 7,311,356 |
| Loss from operations | (736,097) | (388,234) | (1,309,220) | (1,924,771) |
| Interest and other income (expense), net: | | | | |
| Interest and other income | 173 | 1,472 | 186 | 2,774 |
| Interest expense | – | (454) | – | (2,085) |
| Fair value adjustment on derivative instruments – Note 4 | – | (8,075) | – | (47,690) |
| Foreign exchange gain | 171,904 | 61,835 | 381,103 | 527,211 |
| Net loss for the period | $ (564,020) | $ (333,456) | $ (927,931) | $ (1,444,561) |
| | | | | |
| Net loss per share: | | | | |
| Basic and diluted – Note 9 | $ (0.12) | $ (0.08) | $ (0.20) | $ (0.33) |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted – Note 9 | 4,554,226 | 4,425,343 | 4,552,371 | 4,331,017 |

*See accompanying notes to the interim consolidated financial statements*

**COUNTERPATH CORPORATION**
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
(Stated in U.S. Dollars)
(Unaudited)

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss for the period | $ (564,020) | $ (333,456) | $ (927,931) | $ (1,444,561) |
| Other comprehensive loss: | | | | |
| Foreign currency translation adjustments | (356,927) | (149,434) | (852,279) | (1,149,428) |
| Comprehensive loss | $ (920,947) | $ (482,890) | $ (1,780,210) | $ (2,593,989) |

*See accompanying notes to the interim consolidated financial statements*

**COUNTERPATH CORPORATION**
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Stated in U.S. Dollars)
(Unaudited)

| | Six Months Ended October 31, 2016 | Six Months Ended October 31, 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss for the period | $ (927,931) | $ (1,444,561) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 52,487 | 120,717 |
| Stock-based compensation | 551,190 | 561,574 |
| Issuance of common stock for services | 13,963 | – |
| Foreign exchange gain | (437,795) | (304,990) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 219,239 | (51,952) |
| Prepaid expenses and deposits | 76,548 | 35,768 |
| Accounts payable and accrued liabilities | (12,010) | (290,984) |
| Unearned revenue | 319,980 | 209,729 |
| Deferred lease inducements | (4,987) | (9,008) |
| Accrued warranty | (1,591) | (6,973) |
| Customer deposits | 941 | 21,500 |
| Net cash provided by (used in) operating activities | (149,966) | (1,159,180) |
| **Cash flows from investing activities:** | | |
| Purchase of equipment | (57,517) | (9,177) |
| Purchase of other assets | (4,023) | – |
| Net cash used in investing activities | (61,540) | (9,177) |
| **Cash flows from financing activities:** | | |
| Common stock issued | – | 1,510,185 |
| Common stock repurchased | (7,870) | (29,729) |
| Net cash provided by (used in) financing activities | (7,870) | 1,480,456 |
| Foreign exchange effect on cash | (20,597) | (54,348) |
| Net increase (decrease) in cash | (239,973) | 257,751 |
| Cash, beginning of the period | 2,159,738 | 2,852,422 |
| Cash, end of the period | $ 1,919,765 | $ 3,110,173 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for: | | |
| Interest | $ – | $ 2,085 |
| Income taxes paid | $ – | $ – |

*See accompanying notes to the interim consolidated financial statements*

**COUNTERPATH CORPORATION**
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**
**for the Six Months Ended October 31, 2016**
(Stated in U.S. Dollars)
(Unaudited)

| | Common Shares | | Treasury Shares | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Par Value | Number of Shares | Par Value | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total |
| Balance, April 30, 2016 | 4,542,348 | $ 4,542 | (400) | $ – | $ 70,065,082 | $ (58,022,500) | $ (2,942,640) | $ 9,104,484 |
| Shares issued: | | | | | | | | |
| Share repurchase plan | – | – | (2,500) | (3) | (5,414) | – | – | (5,417) |
| Cancellation of shares — Note 5 | (2,300) | (2) | 2,300 | 2 | (2,453) | – | – | (2,453) |
| Stock-based compensation – Note 5 | – | – | – | – | 551,190 | – | – | 551,190 |
| Issuance of common stock for services – Note 5 | 13,500 | 14 | – | – | 13,949 | – | – | 13,963 |
| Net loss for the period | – | – | – | – | – | (927,931) | – | (927,931) |
| Foreign currency translation adjustment | – | – | – | – | – | – | (852,279) | (852,279) |
| Balance, October 31, 2016 (unaudited) | 4,553,548 | $ 4,554 | (600) | $ (1) | $ 70,622,354 | $ (58,950,431) | $ (3,794,919) | $ 7,881,557 |

*See accompanying notes to the interim consolidated financial statements*

**Note 1** **Nature of Operations**

CounterPath Corporation (the "Company") was incorporated in the State of Nevada on April 18, 2003. The shares of the Company's common stock are listed for trading on the NASDAQ Capital Market in the United States of America and on the Toronto Stock Exchange in Canada.

The Company focuses on the design, development, marketing and sales of software applications and related services, such as pre and post sales technical support and customization services, that enable enterprises and telecommunication service providers to deliver Unified Communications (UC) services, including voice, video, messaging and collaboration functionality, over their Internet Protocol, or IP, based networks. The Company's products are sold either directly or through channel partners, to small, medium and large businesses ("enterprises") and telecom service providers, in North America, and in Europe, Middle East, Africa ("collectively EMEA"), Asia Pacific and Latin America.

**Note 2** **Significant Accounting Policies**

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and are stated in U.S. dollars except where otherwise disclosed. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may vary from these estimates.

These interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities and commitments in the normal course of business. In the current period, service revenue was separated into two categories, professional and other services and subscription, support and maintenance revenue. The comparative period has been adjusted to conform to the current period's presentation (Note 2(g)).

a) Basis of Presentation

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CounterPath Technologies Inc. ("CounterPath Technologies"), a company existing under the laws of the province of British Columbia, Canada, and BridgePort Networks, Inc. ("BridgePort"), incorporated under the laws of the state of Delaware. All inter- company transactions and balances have been eliminated.

**Note 2** **Significant Accounting Policies - (cont'd)**

b) Interim Reporting

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with generally accepted accounting principles in the United States of America. Except where noted, these interim financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2016 annual audited consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company's April 30, 2016 annual audited consolidated financial statements.

Operating results for the six months ended October 31, 2016 are not necessarily indicative of the results that can be expected for the year ending April 30, 2017.

c) New Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606"). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. In August 2015, ASU 2015-14 was issued which delayed the effective date for public entities to reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this new standard.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. We are currently evaluating the impact of this standard on our Consolidated Financial Statements and related disclosures.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies the guidance in the new revenue standard regarding an entity's identification of its performance obligations in a contract, as well as an entity's evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. We are currently evaluating the impact of this standard on our Consolidated Financial Statements and related disclosures.

**Note 2** **Significant Accounting Policies – (cont'd)**

c) New Accounting Pronouncements – (cont'd)

In May 2016, the FASB issued ASU 2016-11, Revenue Recognition: Customer Payments and Incentives, which clarifies the guidance in recognizing costs for consideration given by a vendor to a customer as a component of cost of sales. We are currently evaluating the impact of this standard on our Consolidated Financial Statements and related disclosures.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers: Narrow- Scope Improvements and Practical Expedients which amends the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to address implementation issues and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. These amendments have the same effective date as the new revenue standard. While we are currently evaluating the method of adoption and the impact of the new revenue standard, as amended, on our Consolidated Financial Statements and related disclosures, we believe the adoption of the new standard may have a significant impact on the accounting for certain transactions with multiple elements or "bundled" arrangements because the requirement to have VSOE for undelivered elements under current accounting standards is eliminated under the new standard. Accordingly, we may be required to recognize as revenue a portion of the sales price upon delivery of the software, as compared to the current requirement of recognizing the entire sales price ratably over an estimated offering period. We continue to evaluate the impact of the new revenue standard on our Consolidated Financial Statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Measurement of Credit Losses on Financial Instruments which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for Company's ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected will a valuation provision. The amendments will be effective for fiscal years beginning after December 15, 2019. We are evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

In August 2014, FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The standard allows for either a full retrospective or modified retrospective transition method. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements upon adoption.

In February 2016, FASB issued ASU 2016-02, *Leases*. The guidance would require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right –of-use assets. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2018. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements.

**Note 2** **Significant Accounting Policies – (cont'd)**

d) Derivative Instruments

The Company accounts for derivative instruments, consisting of foreign currency forward contracts, pursuant to the provisions of ASC 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires the Company to measure derivative instruments at fair value and record them in the balance sheet as either an asset or liability and expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. The Company does not use derivative instruments for trading purposes. ASC 815 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

The Company also routinely enters into foreign currency forward contracts, not designated as hedging instruments, to protect the Company from fluctuations in exchange rates. Gains or losses arising out of marked to market fair value valuation of forward contracts, not designated as hedges, are recognized in net income (see Note 4).

The Company records foreign currency forward contracts on its Consolidated Balance Sheets as derivative instruments assets or liabilities depending on whether the net fair value of such contracts is a net asset or net liability, respectively (see Note 4 "Derivative Financial Instruments and Risk Management," of the Notes to the Consolidated Financial Statements). The Company did not enter any foreign currency derivatives designated as cash flow hedges in the three and six months ended October 31, 2016.

e) Goodwill

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. ASC Topic 350 ("ASC 350") requires goodwill to be tested for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company's business enterprise below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit, which is measured based upon, among other factors, market multiples for comparable companies as well as a discounted cash flow analysis.

Management has determined that the Company currently has a single reporting unit which is CounterPath Corporation. If the recorded value of the assets, including goodwill, and liabilities ("net book value") of the reporting unit exceeds its fair value, an impairment loss may be required.

Goodwill of $6,339,717 (CDN$6,704,947) and $2,083,960 (CDN$2,083,752) was initially recorded as the Company was deemed to be the acquirer of NewHeights Software Corporation ("NewHeights") on August 2, 2007 and FirstHand Technologies Inc. ("FirstHand") on February 1, 2008, respectively. Translated to U.S. dollars using the period end rate, the goodwill balance at October 31, 2016 was $5,002,423 (CDN$6,704,947) (April 30, 2016 - $5,341,481) in respect of NewHeights and $1,554,392 (CDN$2,083,414) (April 30, 2016 - $1,659,747) in respect of FirstHand. Management will perform its annual impairment test in its fiscal fourth quarter. No impairment charges were recorded for the six months ended October 31, 2016 and 2015.

**Note 2** **Significant Accounting Policies - (cont'd)**

f) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented net of an allowance for doubtful accounts.

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| Balance of allowance for doubtful accounts, beginning of period/year | $ 547,173 | $ 294,719 |
| Bad debt provision | 223,396 | 612,769 |
| Write-off of receivables | (400,000) | (360,315) |
| Balance of allowance for doubtful accounts, end of period/year | $ 370,569 | $ 547,173 |

The Company determines the allowance for doubtful accounts by considering a number of factors, including the length of time the accounts receivable are beyond the contractual payment terms, previous loss history, and the customer's current ability to pay its obligation. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company, the Company records a charge to the allowance to reduce the customer's related accounts.

g) Revenue Recognition

The Company's revenue is generated from the sale of software license, subscription fees related to the cloud offering, support and maintenance services and professional services. The Company recognizes revenue in accordance with ASC 985-605 "Software Revenue Recognition".

Software license revenue is recognized for sales of perpetual licenses.

Subscription, support and maintenance revenue is generated from recurring fees purchased through the Company's cloud based offerings, where the customer has no right to take possession of the underlying software at any time.

Professional and other services includes software customization, implementation, training, and dedicated engineering which are recognized as the related service has been performed.

h) Earnings Per Share

The Company computes net loss per share in accordance with ASC Topics 260 and ASC 260-10. ASC Topics 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the consolidated statement of operations. Basic EPS is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS gives effect to all dilutive potential common shares outstanding during the year including stock options and warrants using the treasury stock method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. For the six months ended October 31, 2016 and 2015, common share equivalents, consisting of common shares issuable, on exercise or settlement, as applicable, of options, warrants and deferred share units ("DSUs") of 923,102 and 840,854, respectively, were not included in the computation of diluted EPS because the effect was anti-dilutive.

**Note 3** **Related Party Transactions**

During the three and six months ended October 31, 2016, the Company through its wholly owned subsidiary, CounterPath Technologies, paid $19,271 and $38,541 (2015 - $19,746 and $39,493) to Kanata Research Park Corporation ("KRP") for leased office space. KRP is controlled by the Chairman of the Company.

On November 21, 2013, the Company, through its wholly owned subsidiary, CounterPath Technologies, entered into an agreement with 8007004 (Canada) Inc. ("8007004") to lease office space. 8007004 is controlled by a member of the board of directors of the Company. CounterPath Technologies, paid $7,520 and $14,878 (2015 - $nil and $nil) for the three and six months ended October 31, 2016.

On July 31, 2015, the Company sold products and services to Magor Corporation for consideration of $134,250. Magor Corporation's chairman of the board is also Chairman of the Company.

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

**Note 4** **Derivative Financial Instruments and Risk Management**

In the normal course of business, the Company is exposed to fluctuations in the exchange rates associated with foreign currencies. The Company's primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk.

Foreign Currency Exchange Rate Risk

A majority of the Company's revenue activities are transacted in U.S. dollars. However, the Company is exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to the Company's operations for the three and six months ended October 31, 2016 is the Canadian dollar as a majority of the Company's expenses are in Canadian dollars. The Company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. During the three and six months ended October 31, 2016 and 2015, the Company did not enter into any cash flow hedges.

The Company also routinely enters into foreign currency forward contracts, not designated as hedging instruments, to protect it from fluctuations in exchange rates. During the three and six months ended October 31, 2016, the Company had not entered into any foreign currency forward contracts. On June 7, 2015, the Company entered into a $1,000,000 notional value foreign currency forward contract that matured on August 20, 2015. A loss of $nil (2015 - $8,075 and $47,690) was recognized during the three and six month period.

**Note 4** **Derivative Financial Instruments and Risk Management – (cont'd)**

Fair Value Measurement

When available, the Company uses quoted market prices to determine fair value, and classifies such measurements within Level 1. In some cases where market prices are not available, the Company makes use of observable market–based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market–based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value–driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Fair value measurement includes the consideration of non–performance risk. Non–performance risk refers to the risk that an obligation (either by a counterparty or the Company) will not be fulfilled. For financial assets traded in an active market (Level 1), the non–performance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), the Company's fair value calculations have been adjusted accordingly.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of October 31, 2016 and April 30, 2016.

| As at October 31, 2016 | Carrying Amount | Fair Value | Fair Value Levels | Reference |
|---|---|---|---|---|
| Cash and cash equivalents | $ 1,919,765 | $ 1,919,765 | 1 | N/A |

| As at April 30, 2016 | Carrying Amount | Fair Value | Fair Value Levels | Reference |
|---|---|---|---|---|
| Cash and cash equivalents | $ 2,159,738 | $ 2,159,738 | 1 | N/A |

| Forward contracts | October 31, 2016 | April 30, 2016 |
|---|---|---|
| Opening balance at the beginning of the period/year | $ – | $ – |
| Fair value of forward contract, at issuance | – | – |
| Change in fair value of forward contracts since issuance | – | (47,690) |
| Fair value of forward contracts settled during the period/year | – | 47,690 |
| Fair value of forward contracts at end of period/year | $ – | $ – |

**Note 5** **Common Stock**

On April 4, 2016, the Company entered into an agreement to issue 25,000 shares of the Company's common stock in exchange for advisory services which was subsequently amended to 23,500 shares. The shares were issued in three tranches: (i) the first tranche of 10,000 shares was issued on April 22, 2016; (ii) the second tranche of 10,000 shares was issued on May 25, 2016; (iii) and the third tranche of 3,500 shares was issued on June 30, 2016.

The Company has a stock option plan (the "2010 Stock Option Plan") under which options to purchase shares of the Company's common stock may be granted to employees, directors and consultants. Stock options entitle the holder to purchase shares of the Company's common stock at an exercise price determined by the board of directors (the "Board") of the Company at the time of the grant. The options generally vest in the amount of 12.5% on the date which is six months from the date of grant and then beginning in the seventh month at 1/42 per month for 42 months, at which time the options are fully vested.

On September 12, 2016, the maximum number of shares of common stock authorized by the Company's stock holders and reserved for issuance by the Board under the 2010 Stock Option Plan was increased from 786,000 to 986,000.

On September 12, 2016, the decrease in the exercise price of certain outstanding stock options to $2.50 was authorized by the Company's stock holders. Accordingly the exercise price of 319,822 stock options with exercise prices ranging from $4.50 to $29.00 was decreased to $2.50. The fair value of the options immediately prior to the modification was compared to the fair value of the modified options. Stock based compensation of $112,158 was recognized on the modification of the vested options.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. Assumptions used to determine the fair value of the modified options were a volatility of 88.55%, dividend yield of 0%, a risk free rate of 1.23% and an expected life dependent on the remaining life of the specific stock options based on an expected life of 3.7 years at grant date. The Company applied an estimated forfeiture rate of 15% for the six months ended October 31, 2016 and 2015 in determining the expense recorded in the accompanying consolidated statement of operations.

For the majority of the stock options granted, the number of shares issued on the date the stock options are exercised is net of the minimum statutory withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. Although these withheld shares are not issued or considered common stock repurchases under our authorized plan they are treated as common stock repurchases in our consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting.

The weighted-average fair value of options granted during the three and six months ended October 31, 2016 was $nil and $1.55, respectively (2015 - $nil and $3.10). The weighted-average assumptions utilized to determine such values are presented in the following table:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Risk-free interest rate | – | – | 1.10% | 1.66% |
| Expected volatility | – | – | 95.19% | 90.23% |
| Expected term | – | – | 3.7 years | 3.7 years |
| Dividend yield | – | – | 0% | 0% |

**Note 5 Common Stock – (cont'd)**

Stock Options – (cont'd)

The following is a summary of the status of the Company's stock options as of October 31, 2016 and the stock option activity during the six months ended October 31, 2016:

| | Number of Options | Weighted Average Exercise Price per Share |
|---|---|---|
| Outstanding at April 30, 2016 | 410,730 | $ 12.99 |
| Granted | 90,000 | $ 2.40 |
| Forfeited/Cancelled | (44,980) | $ 4.32 |
| Expired | (24,540) | $ 21.08 |
| Outstanding at October 31, 2016 | 431,210 | $ 2.48 |
| | | |
| Exercisable at October 31, 2016 | 243,295 | $ 2.50 |
| Exercisable at April 30, 2016 | 236,795 | $ 16.77 |

The following table summarizes stock options outstanding as of October 31, 2016:

| Exercise Price | Number of Options Outstanding | Aggregate Intrinsic Value | Expiry Date | Number of Options Exercisable | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| $2.40 | 60,000 | $ – | July 15, 2021 | – | $ – |
| $2.41 | 52,928 | – | December 14, 2020 | 11,351 | – |
| $2.50 | 318,282 | – | December 14, 2016 to July 17, 2020 | 231,944 | – |
| October 31, 2016 | 431,210 | $ – | | 243,295 | $ – |
| April 30, 2016 | 410,730 | $ – | | 236,795 | $ – |

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of $2.01 per share as of October 31, 2016 (April 30, 2016 – $2.12), which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options vested and exercisable as of October 31, 2016 was nil (April 30, 2016 – nil). The total intrinsic value of options exercised during the six months ended October 31, 2016 was $nil (October 31, 2015 – $nil). The grant date fair value of options vested during the three and six months ended October 31, 2016 was $91,395 and $216,228, respectively (October 31, 2015 - $155,986 and $307,968).

**Note 5 Common Stock – (cont'd)**

Stock Options – (cont'd)

The following table summarizes non-vested stock purchase options outstanding as of October 31, 2016:

| | Number of Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested options at April 30, 2016 | 173,935 | $4.15 |
| Granted | 90,000 | $2.40 |
| Vested | (40,826) | $5.30 |
| Forfeited/Cancelled | (35,194) | $1.66 |
| Non-vested options at October 31, 2016 | 187,915 | $3.44 |

As of October 31, 2016, there was $596,390 of total unrecognized compensation cost related to unvested share-based compensation awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 2.1 years.

Employee and non-employee stock-based compensation amounts classified in the Company's consolidated statements of operations for the three and six months ended October 31, 2016 and 2015 are as follows:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Cost of sales | $ 35,304 | $ 16,592 | $ 54,053 | $ 31,279 |
| Sales and marketing | 71,010 | 66,431 | 119,417 | 135,361 |
| Research and development | 37,827 | 20,069 | 57,517 | 37,633 |
| General and administrative | 60.319 | 57,118 | 88,788 | 113,007 |
| Total stock-option based compensation | $ 204,460 | $ 160,210 | $ 319,775 | $ 317,280 |

Warrants

The following table summarizes warrants outstanding and exercisable as of October 31, 2016:

| | Number of Warrants | Weighted Average Exercise Price | Expiry Dates |
|---|---|---|---|
| Warrants at April 30, 2016 | 146,500 | $ 7.50 | September 4, 2017 |
| Granted | – | – | – |
| Exercised | – | – | – |
| Expired | – | – | – |
| Warrants at October 31, 2016 | 146,500 | $ 7.50 | September 4, 2017 |

**Note 5 Common Stock – (cont'd)**

Employee Stock Purchase Plan

Under the terms of the Employee Stock Purchase Plan (the "ESPP") all regular salaried (non- probationary) employees can purchase up to 6% of their base salary in shares of the Company's common stock at market price. The Company will match 50% of the shares purchased by issuing or purchasing in the market up to 3% of the respective employee's base salary in shares. During the six months ended October 31, 2016, the Company matched $18,197 (2015 - $22,065) in shares purchased by employees under the ESPP. During the six months ended October 31, 2016, 24,481 shares (2015 – no shares) were purchased on the open market and no shares (2015 – 13,869 shares) were issued from treasury under the ESPP.

A total of 120,000 shares have been reserved for issuance under the ESPP. As of October 31, 2016, a total of 86,203 shares were available for issuance under the ESPP.

Normal Course Issuer Bid Plan

Pursuant to a normal course issuer bid ("NCIB") commencing on March 19, 2016 and expiring March 18, 2017, the Company is authorized to purchase 273,864 shares of the Company's common stock through the facilities of the Toronto Stock Exchange (the "TSX") and other Canadian marketplaces or U.S. marketplaces. During the period from March 19, 2015 to March 18, 2016, the Company repurchased 11,360 shares at an average price of $3.80 (CDN$4.97) for a total of $43,168 and during the period March 19, 2016 to October 31, 2016, the Company repurchased 2,900 common shares at an average price of $2.16 (CDN$2.81) for a total of $6,264. As of October 31, 2016, a total of 78,008 shares have been cancelled and the remaining 600 repurchased shares are in the process of being cancelled since the NCIB was initiated.

Deferred Share Unit Plan

Under the terms of the Deferred Share Unit Plan (the "DSUP"), each DSU is equivalent to one share of the Company's common stock. The maximum number of common shares that may be reserved for issuance to any one participant pursuant to DSUs granted under the DSUP and any share compensation arrangement is 5% of the number of shares outstanding at the time of reservation. A DSU granted to a participant who is a director of the Company shall vest immediately on the award date. A DSU granted to a participant other than a director will generally vest as to one-third (1/3) of the number of DSUs granted on the first, second and third anniversaries of the award date. Fair value of the DSUs, which is based on the closing price of the shares of the Company's common stock on the date of grant, is recorded as compensation expense over the vesting period.

On September 12, 2016, the maximum number of shares of common stock authorized by the Company's stockholders reserved for issuance under the DSUP was increased from 400,000 shares to 500,000 shares. During the six months ended October 31, 2016, 90,453 (2015 — 55,034) DSUs were issued under the DSUP, of which 24,228 were granted to officers or employees and 66,225 were granted to non-employee directors. As of October 31, 2016, a total of 130,595 shares were available for issuance under the DSUP.

**Note 5** **Common Stock – (cont'd)**

Deferred Share Unit Plan - (cont'd)

The following table summarizes the Company's outstanding DSU awards as of October 31, 2016, and changes during the period then ended:

| | Number of DSUs | Weighted Average Grant Date Fair Value Per DSU |
|---|---|---|
| DSUs outstanding at April 30, 2016 | 254,939 | $9.79 |
| Granted | 90,453 | $2.40 |
| DSUs outstanding at October 31, 2016 | 345,392 | $7.85 |

The following table summarizes information regarding the non-vested DSUs outstanding as of October 31, 2016:

| | Number of DSUs | Weighted Average Grant Date Fair Value Per DSU |
|---|---|---|
| Non-vested DSUs at April 30, 2016 | 38,522 | $8.15 |
| Granted | 90,453 | $2.40 |
| Vested | (82,758) | $3.86 |
| Non-vested DSUs at October 31, 2016 | 46,217 | $4.58 |

As of October 31, 2016, there was $175,195 (2015 – $269,206) of total unrecognized compensation cost related to unvested DSU awards. This unrecognized compensation cost is expected to be recognized over a weighted average period of 1.71 years (2015 – 1.99 years).

Employee and non-employee DSU based compensation amounts classified in the Company's consolidated statements of operations for the three and six months ended October 31, 2016 and 2015 are as follows:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Sales and marketing | $ – | $ – | $ – | $ – |
| Research and development | – | – | – | 1,633 |
| General and administrative | 32,508 | 39,842 | 231,415 | 242,661 |
| Total DSU based compensation | $ 32,508 | $ 39,842 | $ 231,415 | $ 244,294 |

**Note 6** **Segmented Information**

The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, the Company has concluded that it has one reportable operating segment.

Revenues are based on the country in which the customer is located. The following is a summary of total revenues by geographic area for the three and six months ended October 31, 2016 and 2015:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| North America | $ 1,526,524 | $ 2,060,754 | $ 3,435,387 | $ 3,565,961 |
| EMEA | 858,713 | 500,027 | 1,689,935 | 1,110,827 |
| Asia Pacific | 273,844 | 180,155 | 470,123 | 329,831 |
| Latin America | 92,032 | 288,403 | 181,662 | 379,966 |
| | $ 2,751,113 | $ 3,029,339 | $ 5,777,107 | $ 5,386,585 |

All of the Company's long-lived assets, which include equipment, intangible assets, goodwill and other assets, are located in Canada and the United States as follows:

| | As at | |
|---|---|---|
| | October 31, 2016 | April 30, 2016 |
| Canada | $ 6,829,942 | $ 7,279,019 |
| United States | 48,286 | 39,583 |
| | $ 6,878,228 | $ 7,318,602 |

Revenue from significant customers for the three and six months ended October 31, 2016 and 2015 is summarized as follows:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Customer A | 10% | –% | 5% | –% |

Accounts receivable balance for Customer A was $357,540 as at October 31, 2016 (April 30, 2016 - $nil).

**Note 7** **Commitments**

Total payable over the term of the agreements for the years ended April 30 are as follows:

| | Office Leases – Related Party | Office Leases – Unrelated Party | Total Office Leases |
|---|---|---|---|
| 2017 | $ 38,541 | $ 268,238 | $ 306,779 |
| 2018 | 77,083 | 515,800 | 592,883 |
| 2019 | 77,083 | 518,127 | 595,210 |
| 2020 | – | 246,983 | 246,983 |
| 2021 | – | 4,394 | 4,394 |
| | $ 192,707 | $ 1,553,542 | $ 1,746,249 |

**Note 8** **Contingencies**

The Company is party to legal claims from time to time which arise in the normal course of business. These claims are not expected to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

**Note 9** **Earnings (loss) per common share ("EPS")**

Computation of basic and diluted EPS:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | $ (564,020) | $ (333,456) | $ (927,931) | $ (1,444,561) |
| Weighted average common shares outstanding – basic and diluted | 4,554,226 | 4,425,343 | 4,552,371 | 4,331,017 |
| Basic and diluted EPS | $ (0.12) | $ (0.08) | $ (0.20) | $ (0.33) |

As at October 31, 2016 and 2015, common share equivalents, consisting of common shares issuable, on exercise of options, warrants and DSUs of 923,102 and 840,854, respectively, were not included in the computation of diluted EPS because the effect was anti-dilutive.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### Forward-Looking Statements

This quarterly report, including the documents incorporated herein and therein by reference, contains forward-looking statements as that term is defined in Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. Forward-looking statements in this quarterly report may include statements about:

- any potential loss of or reductions in orders from certain significant customers;
- our dependence on our customers to sell our applications or services using our applications;
- claims that we infringe intellectual property rights of others;
- our ability to protect our intellectual property;
- competitive factors, including, but not limited to, industry consolidation, entry of new competitors into our market, and new product and marketing initiatives by our competitors;
- our ability to predict our revenue, operating results and gross margin accurately;
- the length and unpredictability of our sales cycles;
- our ability to expand or enhance our product offerings including in response to industry demands or market trends;
- our ability to sell our products in certain markets;
- our ability to manage growth;
- the attraction and retention of qualified employees and key personnel;
- the interoperability of our products with service provider networks;
- the quality of our products and services, including any undetected errors or bugs in our software; and
- our ability to maintain proper and effective internal controls.

These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including securities laws of the United States and Canada, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

### *Background*

We were incorporated under the laws of the State of Nevada on April 18, 2003.

On August 2, 2007, we acquired all of the shares of NewHeights Software Corporation through the issuance of 768,017 shares of our common stock and 36,984 preferred shares issued from a subsidiary of our company, which preferred shares were exchangeable into 36,984 shares of our common stock.

On February 1, 2008, we acquired all of the shares of FirstHand Technologies Inc. through the issuance of 590,000 shares of our common stock. On February 1, 2008, we acquired all of the issued and outstanding shares of BridgePort Networks, Inc. ("BridgePort Networks") by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort Networks.

***Business of CounterPath***

We design, develop and sell software and services that enable enterprises and telecommunication service providers to deliver Unified Communications (UC) services, including voice, video, messaging and collaboration functionality, over their Internet Protocol, or IP, based networks. We are capitalizing upon numerous industry trends, including the rapid adoption of mobile technology, the proliferation of bring-your-own-device to work programs, the need for secure business communications, the need for centralized provisioning, the migration towards cloud-based services and the migration towards all IP networks. We are also capitalizing on a trend where communication services such as Skype and WhatsApp are becoming more available over-the-top (OTT) of the incumbent operators' networks or enterprise networks (a.k.a. Internet OTT providers). We offer our solutions under perpetual license agreements that generate one-time license revenue and under subscription license agreements that generate recurring license revenue. We sell our solutions through our own online store, through third-party online stores, directly using our in-house sales team and through channel partners. Our channel partners include original equipment manufacturers, value added distributers and value added resellers. Enterprises typically leverage our Enterprise OTT solutions to increase employee productivity and to reduce certain costs. Telecommunication service providers typically deploy our Operator OTT solutions as part of a broad strategy to defend their subscriber base from competitive threats by offering innovative new services. Our original equipment manufacturers and value added resellers typically integrate our solutions into their products and then sell a bundled solution to their end customers, which include both telecommunication service providers and enterprises.

***Revenue***

Our total revenue consists of the following:

- *Software*

  We generate software revenue primarily on a single fee per perpetual software license basis. We recognize software revenue at the time of delivery, provided all revenue recognition criteria have been met. If the revenue recognition criteria has not been met, the revenue is deferred. The number of software licenses purchased has a direct impact on the average selling price. Our software revenue may vary significantly from quarter to quarter as a result of long sales and deployment cycles, new product introductions and variations in customer ordering practices.

- *Subscription, support and maintenance*

  We generate recurring subscription revenue from subscriptions related to our software as a service offering. Recurring support and maintenance revenue is generated from annual software support and maintenance contracts for our perpetual software licenses. Both subscription revenue and support and maintenance revenue are typically billed annually in advance based on the terms of the arrangement.

  Support services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized rateably over the term of the service period, which is generally twelve months.

- *Professional services and other*

  We generate professional services and other revenue through services including product configuration and customization, implementation, dedicated engineering and training. The amount of product configuration and customization required by a customer typically increases as the order size increases from a given customer. Services and pricing may vary depending upon a customer's requirements for customization, implementation and training.

### *Operating Expenses*

Operating expenses consist of cost of sales, sales and marketing, research and development, and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense categories.

Cost of sales primarily consists of: (a) salaries and benefits related to personnel, (b) related overhead, (c) billable and non-billable travel, lodging, and other out-of-pocket expenses, (d) payments to third party vendors for compression/decompression software known as codecs, (e) amortization of capitalized software that is implemented into our products and (f) warranty expense.

Sales and marketing expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) commissions, (c) travel, lodging and other out-of-pocket expenses, (d) marketing programs such as trade shows and (e) other related overhead. Commissions are recorded as an expense when earned by the employee. We expect increases in sales and marketing expense for the foreseeable future as we further increase the number of sales professionals and increase our marketing activities with the intent to grow our revenue. We expect sales and marketing expense to decrease as a percentage of total revenue, however, as we leverage our current sales and marketing personnel as well as our distribution partnerships.

Research and development expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) payments to contractors for design and consulting services, (c) costs relating to the design and development of new products and enhancement of existing products, (d) quality assurance and testing and (e) other related overhead. To date, all of our research and development costs have been expensed as incurred.

General and administrative expense consists primarily of: (a) salaries and personnel costs including stock-based compensation related to our executive, finance, human resource and information technology functions, (b) accounting, legal, tax advisory and regulatory fees and (c) other related overhead.

## Application of Critical Accounting Policies and Use of Estimates

Our interim consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions. There have been no material changes to these estimates for the periods presented in this quarterly report.

We believe that of our significant accounting policies, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, the following policies are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

### *Basis of Presentation*

The interim consolidated financial statements include the accounts of our company and our wholly-owned subsidiaries, CounterPath Technologies, a company existing under the laws of the province of British Columbia, Canada, and BridgePort Networks, a company incorporated under the laws of the state of Delaware. All inter-company transactions and balances have been eliminated.

### *Interim Reporting*

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the interim consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with generally accepted accounting principles in the United States. Except where noted, the interim consolidated financial statements follow the same accounting policies and methods of their application as our April 30, 2016 annual audited consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim consolidated financial statements be read in conjunction with our April 30, 2016 annual audited consolidated financial statements.

Operating results for the three and six months ended October 31, 2016 are not necessarily indicative of the results that can be expected for the year ending April 30, 2017.

### *Revenue Recognition*

We recognize revenue in accordance with ASC 985-605 "Software Revenue Recognition".

In all of our arrangements, we do not recognize any revenue until we can determine that persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and we deem collection to be probable. For distribution and reseller arrangements, fees are fixed or determinable and collection probable when there are no rights to exchange or return and fees are not dependable upon payment from the end-user. If any of these criteria are not met, revenue is deferred until such time that all criteria have been met.

A substantial percentage of our revenue is generated by multiple-element arrangements, such as products, support and maintenance, and professional services. When arrangements include multiple elements, we allocate the total fee among the various elements using the residual method. Under the residual method, revenue is recognized when vendor-specific objective evidence, or VSOE, of fair value exists for all of the undelivered elements of the arrangement, but does not exist for one or more of the delivered elements of the arrangement. Each arrangement requires us to analyze the individual elements in the transaction and to estimate the fair value of each undelivered element, which typically includes maintenance and services. Revenue is allocated to each of the undelivered elements based on its respective fair value, with the fair value determined by the price charged when that element is sold separately. Revenue from multiple-element arrangements are recognized in software, subscription, support and maintenance, and professional services based on the items or services delivered.

For contracts with elements related to customized network solutions and certain network build-outs, we apply FASB Emerging Issues Task Force Issue ASC 605-25, "Revenue Arrangements with Multiple Deliverables" and revenues are recognized under ASC 605-35, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", generally using the percentage-of-completion method.

In using the percentage-of-completion method, revenues are generally recorded based on a completion of milestones as described in the agreement. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known.

Post contract customer support (PCS) services include e-mail and telephone support, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized rateably over the term of the service period, which is generally twelve months. PCS service revenue generally is deferred until the related product has been delivered and all other revenue recognition criteria have been met. PCS revenues are recognized under support and maintenance revenues.

Professional services and training revenue is recognized as the related service is performed.

***Stock-Based Compensation***

Stock options granted are accounted for under ASC 718, *Share-Based Payment*, and are recognized at the fair value of the options as determined by an option pricing model as the related services are provided and the options earned. ASC 718 requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the fair value of those instruments on the measurement date which generally is the grant date, with limited exceptions.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee consultants. We measure stock-based compensation cost at measurement date, based on the estimated fair value of the award, and generally recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period or the period during which the related services are provided by the non-employee consultants and the options are earned. We estimate the fair value of stock options using a Black-Scholes option valuation model.

The expected volatility of options granted has been determined using the volatility of our company's stock. The expected life of options granted after April 30, 2006 has been determined based on analysis of historical data. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. In addition, ASC 718 requires companies to utilize an estimated forfeiture rate when calculating the expense for the period. We applied an estimated forfeiture rate of 15.0% for the six months ended October 31, 2016 in determining the expense recorded in our consolidated statement of operations. Cost of sales and operating expenses include stock-based compensation expense, and deferred share unit plan expense. For the six months ended October 31, 2016, we recorded an expense of $565,156 in connection with share-based payment awards. A future expense of non-vested options of $596,390 is expected to be recognized over a weighted-average period of 2.08 years. A future expense of non-vested deferred share units of $175,195 is expected to be recognized over a weighted-average period of 1.71 years.

***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

***Accounts Receivable and Allowance for Doubtful Accounts***

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are beyond the contractual payment terms, our previous loss history, and a customer's current ability to pay its obligation to us. We write-off accounts receivable when they are identified as uncollectible. All outstanding accounts receivable are periodically reviewed for collectability on an individual basis.

***Goodwill***

We have goodwill related to the acquisitions of NewHeights Software Corporation and FirstHand Technologies Inc. The determination of the net carrying value of goodwill and the extent to which, if any, there is impairment, are dependent on material estimates and judgments on our part, including the estimate of the value of future net cash flows, which are based upon further estimates of future revenues, expenses and operating margins.

***Goodwill—Impairment Assessments***

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with FASB ASC 350, *Goodwill and Other Intangible Assets*. The provisions of ASC 350 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of our reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of our reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Determining the fair value of our reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Our most recent annual goodwill impairment analysis, which was performed at the end of the fourth quarter of fiscal 2016, did not result in an impairment charge, nor did we record any goodwill impairment for the three and six months ending October 31, 2016.

***Derivative Instruments***

We periodically enter into foreign currency forward contracts, not designated as hedging instruments, to protect us from fluctuations in exchange rates. As at October 31, 2016, our company had no foreign currency forward contracts outstanding. On June 7, 2015, we entered into a $1,000,000 notional value foreign currency forward contract that matured on August 20, 2015. The fair value marked to market loss of forward contracts for that foreign currency contract for the three and six months ended October 31, 2015 was $8,075 and $47,690, respectively. Notional amounts do not quantify risk or represent assets or liabilities of our company, but are used in the calculation of cash settlements under the contracts.

***Use of Estimates***

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires our management to make estimates and assumptions which affect the amounts reported in our interim consolidated financial statements, the notes thereto, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Results of Operations**

Our operating activities during the six months ended October 31, 2016 consisted primarily of selling our IP telephony software and related services to telecom service providers, enterprises and channel partners serving the telecom and enterprise segments, and the continued development of our IP telephony software products.

We generate our revenue primarily in U.S. dollars and incur a majority of our expenses in Canadian dollars. As a result of the decline in the Canadian dollar against the U.S. dollar over the six months ended October 31, 2016, we benefited by recording reduced operating costs on translation of Canadian dollar costs as compared to the six months ended October 31, 2015. For the six months ended October 31, 2016 as compared to six months ended October 31, 2015, the foreign exchange benefit resulting from the decline in the Canadian dollar was approximately $67,000.

***Selected Consolidated Financial Information***

The following tables set out selected consolidated unaudited financial information for the periods indicated. The selected consolidated financial information set out below as at October 31, 2016 and April 30, 2016 and for the three and six months ended October 31, 2016 and 2015 has been derived from the consolidated unaudited financial statements and accompanying notes for the six months ended October 31, 2016 and 2015 and the audited consolidated financial statements for the fiscal year ended April 30, 2016. Each investor should read the following information in conjunction with those statements and the related notes thereto.

| **Selected Consolidated Balance Sheet Data** | | **October 31, 2016** | | **April 30, 2016** |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 1,919,765 | $ | 2,159,738 |
| Current assets | $ | 5,019,671 | $ | 5,553,661 |
| Current liabilities | $ | 4,070,314 | $ | 3,815,705 |
| Total liabilities | $ | 4,109,161 | $ | 3,861,647 |
| Total assets | $ | 11,990,718 | $ | 12,966,131 |

**Selected Consolidated Statements of Operations Data**

| | **Three Months Ended October 31,** | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | | **2015** | | |
| | | **Amount** | **Percent of Total Revenue** | | **Amount** | **Percent of Total Revenue** |
| Revenue | $ | 2,751,113 | 100% | $ | 3,029,339 | 100% |
| | | | | | | |
| Operating expenses | $ | 3,487,210 | 127% | $ | 3,417,573 | 113% |
| Loss from operations | | ($736,097) | (27%) | | ($388,234) | (13%) |
| Interest and other income, net | $ | 173 | –% | $ | 1,018 | –% |
| Fair value adjustment on derivative instrument | | – | –% | | ($8,075) | –% |
| Foreign exchange gain (loss) | $ | 171,904 | 6% | $ | 61,835 | 2% |
| Net loss | | ($564,020) | (21%) | | ($333,456) | (11%) |
| | | | | | | |
| Net loss per share | | | | | | |
| -Basic and diluted | | ($0.12) | | | ($0.08) | |
| | | | | | | |
| Weighted average common shares outstanding | | | | | | |
| -Basic and diluted | | 4,554,226 | | | 4,425,343 | |

**Selected Consolidated Statements of Operations Data**

| | **Six Months Ended October 31,** | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | | **2015** | | |
| | | **Amount** | **Percent of Total Revenue** | | **Amount** | **Percent of Total Revenue** |
| Revenue | $ | 5,777,107 | 100% | $ | 5,386,585 | 100% |
| | | | | | | |
| Operating expenses | $ | 7,086,327 | 123% | $ | 7,311,356 | 136% |
| Loss from operations | | ($1,309,220) | (23%) | | ($1,924,771) | (36%) |
| Interest and other income, net | $ | 186 | –% | $ | 689 | –% |
| Fair value adjustment on derivative instrument | | – | –% | | ($47,690) | (1%) |
| Foreign exchange gain (loss) | $ | 381,103 | 7% | $ | 527,211 | 10% |
| Net loss | | ($927,931) | (16%) | | ($1,444,561) | (27%) |
| | | | | | | |
| Net loss per share | | | | | | |
| -Basic and diluted | | ($0.20) | | | ($0.33) | |
| | | | | | | |
| Weighted average common shares outstanding | | | | | | |
| -Basic and diluted | | 4,552,371 | | | 4,331,017 | |

***Revenue***

| | Three Months Ended October 31, 2016 | | 2015 | | Period-to-Period Change | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Total Revenue | Amount | Percent of Total Revenue | Amount | Percent Increase / (Decrease) |
| **Revenue by Type** | | | | | | |
| Software | $ 1,242,860 | 45% | $ 1,753,129 | 58% | ($510,269) | (29%) |
| Subscription, support and maintenance | $ 957,891 | 35% | $ 875,901 | 29% | $ 81,990 | 9% |
| Professional services and other | $ 550,362 | 20% | $ 400,309 | 13% | $ 150,053 | 37% |
| Total revenue | $ 2,751,113 | 100% | $ 3,029,339 | 100% | ($278,226) | (9%) |
| | | | | | | |
| **Revenue by Region** | | | | | | |
| North America | $ 1,526,525 | 55% | $ 2,060,754 | 68% | ($534,229) | (26%) |
| International | $ 1,224,588 | 45% | $ 968,585 | 32% | $ 256,003 | 26% |
| Total revenue | $ 2,751,113 | 100% | $ 3,029,339 | 100% | ($278,226) | (9%) |

For the three months ended October 31, 2016, we generated $2,751,113 in revenue compared to $3,029,339 for the three months ended October 31, 2015, representing a decrease of $278,226 or 9%.

Software revenue decreased by $510,269 or 29% to $1,242,860 for the three months ended October 31, 2016 compared to $1,753,129 for the three months ended October 31, 2015. The decrease in software revenue was a result of decreases in sales to channel partners and enterprises and service providers.

Subscription, support and maintenance revenue increased by $81,990 or 9% to $957,891 for the three months ended October 31, 2016 compared to $875,901 for the three months ended October 31, 2015. The increase in subscription, support and maintenance revenue was primarily a result of increases in sales to channel partners.

Professional services and other revenue increased by $150,053 or 37% to $550,362 for the three months ended October 31, 2016 compared to $400,309 for the three months ended October 31, 2015. The increase in professional services and other revenue was a result of increases in sales to service providers and enterprises.

North American revenue decreased by $534,229 or 26% to $1,526,525 for the three months ended October 31, 2016 compared to $2,060,754 for the three months ended October 31, 2015, as a result of lower sales of software to enterprises, channel partners, and service providers. International revenue outside of North America increased by $256,003 or 26% to $1,224,588 for the three months ended October 31, 2016 compared to $968,585 the three months ended October 31, 2015, as a result of higher sales to international enterprises and service providers.

| | Six Months Ended October 31, 2016 | | 2015 | | Period-to-Period Change | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Total Revenue | Amount | Percent of Total Revenue | Amount | Percent Increase / (Decrease) |
| **Revenue by Type** | | | | | | |
| Software | $ 2,898,863 | 50% | $ 2,953,978 | 55% | ($55,115) | (2%) |
| Subscription, support and maintenance | $ 1,913,187 | 33% | $ 1,714,039 | 32% | $ 199,148 | 12% |
| Professional services and other | $ 965,057 | 17% | $ 718,568 | 13% | $ 246,489 | 34% |
| Total revenue | $ 5,777,107 | 100% | $ 5,386,585 | 100% | $ 390,522 | 7% |

| | Six Months Ended October 31, 2016 | | 2015 | | Period-to-Period Change | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Total Revenue | Amount | Percent of Total Revenue | Amount | Percent Increase / (Decrease) |
| **Revenue by Region** | | | | | | |
| North America | $ 3,435,387 | 59% | $ 3,565,961 | 66% | ($130,574) | (4%) |
| International | $ 2,341,720 | 41% | $ 1,820,624 | 34% | $ 521,096 | 29% |
| Total revenue | $ 5,777,107 | 100% | $ 5,386,585 | 100% | $ 390,522 | 7% |

For the six months ended October 31, 2016, we generated $5,777,107 in revenue compared to $5,386,585 for the six months ended October 31, 2015, representing an increase of $390,522 or 7%.

Software revenue decreased by $55,115 or 2% to $2,898,863 for the six months ended October 31, 2016 compared to $2,953,978 for the six months ended October 31, 2015. The decrease in software revenue was a result of decreases in sales to channel partners and enterprises partially offset by an increase in sales to service providers.

Subscription, support and maintenance revenue increased by $199,148 or 12% to $1,913,187 for the six months ended October 31, 2016 compared to $1,714,039 for the six months ended October 31, 2015. The increase in subscription, support and maintenance revenue was a result of increases in sales to channel partners and service providers.

Professional services and other revenue increased by $246,489 or 34% to $965,057 for the six months ended October 31, 2016 compared to $718,568 for the six months ended October 31, 2015. The increase in professional services and other revenue was a result of increases in sales to service providers and enterprises.

North American revenue decreased by $130,574 or 4% to $3,435,387 for the six months ended October 31, 2016 compared to $3,565,961 for the six months ended October 31, 2015, as a result of lower sales of software to enterprises and service providers partially offset by increases in sales of service to enterprises and service providers. International revenue outside of North America increased by $521,096 or 29% to $2,341,720 for the six months ended October 31, 2016 compared to $1,820,624 for the six months ended October 31, 2015, as a result of higher sales to international service providers and enterprises.

***Operating Expenses***

*Cost of Sales*

Cost of sales for the three and six months ended October 31, 2016 and 2015 were as follows:

| | October 31, 2016 | | October 31, 2015 | | Period-to-Period Change | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Revenue | Amount | Percent of Revenue | Amount | Percent Increase / (Decrease) |
| Three months ended | $ 476,547 | 17% | $ 495,633 | 16% | ($19,086) | (4%) |
| Six months ended | $ 973,663 | 17% | $ 977,565 | 18% | ($3,902) | –% |

Cost of sales was $476,547 for the three months ended October 31, 2016 compared to $495,633 for the three months ended October 31, 2015. The decrease of $19,086 was primarily attributable to a decrease in licenses and permits of approximately $47,100 which was offset by an increase in wages, benefits and consulting fees of approximately $15,900, and a net increase in other expenses of approximately $12,000.

Cost of sales was $973,663 for the six months ended October 31, 2016 compared to $977,565 for the six months ended October 31, 2015. The slight decrease of $3,902 was primarily attributable to a decrease in licenses and permits of approximately $51,900. This decrease in cost of sales was offset by an increase in dues and subscriptions of approximately $22,600, an increase in wages, benefits and consulting fees of approximately $15,700, and a net increase in other expenses of approximately $9,600.

*Sales and Marketing*

Sales and marketing expenses for the three and six months ended October 31, 2016 and 2015 were as follows:

| | October 31, 2016 | | October 31, 2015 | | Period-to-Period Change | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Revenue | Amount | Percent of Revenue | Amount | Percent Increase / (Decrease) |
| Three months ended | $ 988,540 | 36% | $ 1,034,349 | 34% | ($45,809) | (4%) |
| Six months ended | $ 1,950,409 | 34% | $ 2,221,382 | 41% | ($270,973) | (12%) |

Sales and marketing expenses were $988,540 for the three months ended October 31, 2016 compared to $1,034,349 for the three months ended October 31, 2015. The decrease of $45,809 was primarily attributable to a decrease in wages, benefits and consulting fees of approximately $61,600 which was offset by a net increase in other expenses of approximately $15,800.

Sales and marketing expenses were $1,950,409 for the six months ended October 31, 2016 compared to $2,221,382 for the six months ended October 31, 2015. The decrease of $270,973 was primarily attributable to a decrease in wages, benefits and consulting fees of approximately $245,900, and a decrease in travel expenses of approximately $37,300. The decrease in sales and marketing expenses was offset by a net increase in other expenses of approximately $12,200.

*Research and Development*

Research and development expenses for the three and six months ended October 31, 2016 and 2015 were as follows:

| | October 31, 2016 | | October 31, 2015 | | Period-to-Period Change | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Revenue | Amount | Percent of Revenue | Amount | Percent Increase / (Decrease) |
| Three months ended | $ 1,150,515 | 42% | $ 1,116,456 | 37% | $ 34,059 | 3% |
| Six months ended | $ 2,309,176 | 40% | $ 2,400,646 | 45% | ($91,470) | (4%) |

Research and development expenses were $1,150,515 for the three months ended October 31, 2016 compared to $1,116,456 for the three months ended October 31, 2015. The increase of $34,059 was primarily attributable to an increase in wages, benefits and consulting fees of approximately $45,700 which was offset by a net decrease in other expenses of approximately $11,700.

Research and development expenses were $2,309,176 for the six months ended October 31, 2016 compared to $2,400,646 for the six months ended October 31, 2015. The decrease of $91,470 was primarily attributable to a decrease in wages, benefits and consulting fees of approximately $69,100, and a net decrease in other expenses of approximately $22,400.

*General and Administrative*

General and administrative expenses for the three and six months ended October 31, 2016 and 2015 were as follows:

| | October 31, 2016 | | October 31, 2015 | | Period-to-Period Change | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Revenue | Amount | Percent of Revenue | Amount | Percent Increase / (Decrease) |
| Three months ended | $ 871,608 | 32% | $ 771,135 | 25% | $ 100,473 | 13% |
| Six months ended | $ 1,853,079 | 32% | $ 1,711,763 | 32% | $ 141,316 | 8% |

General and administrative expenses were $871,608 for the three months ended October 31, 2016 compared to $771,135 for the three months ended October 31, 2015. The increase of $100,473 in general and administrative expenses was primarily attributable to an increase in bad debts reserve of approximately $69,800, and an increase in audit, legal and other professional expenses of approximately $33,900. This increase in general and administrative expenses were offset by a decrease in other expenses of approximately $3,300.

General and administrative expenses were $1,853,079 for the six months ended October 31, 2016 compared to $1,711,763 for the six months ended October 31, 2015. The increase of $141,316 in general and administrative expenses was primarily attributable to an increase in bad debts reserve of approximately $135,200, an increase in audit, legal and other professional expenses of approximately $67,700, a net increase in other expenses of approximately $21,400, and an increase in wages, benefits and consulting fees of approximately $18,000. The increase in general and administrative expense was offset by a decrease in amortization expense of approximately $68,000, and a decrease in investor relations expenses of approximately $33,000.

***Interest and Other Income***

Interest income for the three and six months ended October 31, 2016 was $173 and $186, respectively compared to $1,472 and $2,774, respectively, for the three and six months ended October 31, 2015. Interest expense for the three and six months ended October 31, 2016 was $nil for both periods, compared to $454 and $2,085, respectively, for the three and six months ended October 31, 2015.

Foreign exchange gain (loss) for the three and six months ended October 31, 2016 was $171,904 and $381,103, respectively, compared to $61,835 and $527,211, respectively, for the three and six months ended October 31, 2015. The foreign exchange gain (loss) represents the gain (loss) on account of translation of the intercompany accounts of our subsidiary which maintains their records in Canadian dollars and transactional gains and losses. The foreign exchange gain (loss) includes the translation of quarterly intercompany transfer pricing invoices from our Canadian subsidiary to us.

Fair value adjustment on derivative instruments for the three and six months ended October 31, 2016 resulted in a non-cash loss of $nil for both periods, compared $8,075 and $47,690, respectively, for the three and six months ended October 31, 2015.

**Liquidity and Capital Resources**

As of October 31, 2016, we had $1,919,765 in cash and cash equivalents compared to $2,159,738 as of April 30, 2016, representing a decrease of $239,973. Our working capital was $949,357 at October 31, 2016 compared to $1,737,956 at April 30, 2016, representing a decrease of $788,599. Management anticipates that the future capital requirements of our company will be primarily funded through cash flows generated from operations and from working capital, and we may seek additional funding to meet ongoing operating expenses.

Our company has $1,374,698 in cash held outside of the United States, and there is no intent to repatriate at this time. Should we decide to repatriate in the future, taxes would need to be accrued and paid.

***Operating Activities***

Our operating activities resulted in a net cash outflow of $149,966 for the six months ended October 31, 2016. This compares to a net cash outflow of $1,159,180 for the same period last year representing a decrease of $1,009,214 in cash outflow from operations compared to the same period last year. The net cash outflow from operating activities for the six months ended October 31, 2016 was primarily a result of a net loss of $927,931 and a non-cash foreign exchange gain of $437,795. The net cash outflow was offset by stock based compensation of $551,190, unearned revenue of $319,980 and accounts receivable of $219,239.

### *Investing Activities*

Investing activities resulted in a net cash outflow of $61,540, for the six months ended October 31, 2016 primarily for purchases of computer equipment and intangible assets. This compares with a net cash outflow from investing activities of $9,177 for the same period last year primarily for purchases of computer equipment. At October 31, 2016, we did not have any material commitments for future capital expenditures.

### *Financing Activities*

Financing activities resulted in a net cash outflow of $7,870 for the six months ended October 31, 2016 compared to a net cash inflow of $1,480,456 for the six months ended October 31, 2015. The net cash inflow for the six months ended October 31, 2015 was primarily a result of a non-brokered private placement under which we issued 293,000 units at a price of $5.00 per unit raising $1,465,000.

### Off-Balance Sheet Arrangements

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

### New Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, Revenue From Contracts With Customers ("Topic 606"). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. In August 2015, ASU 2015-14 was issued which delayed the effective date for public entities to reporting periods beginning after December 15, 2017. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this new standard.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. We are currently evaluating the impact of this standard on our consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies the guidance in the new revenue standard regarding an entity's identification of its performance obligations in a contract, as well as an entity's evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. We are currently evaluating the impact of this standard on our consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU 2016-11, Revenue Recognition: Customer Payments and Incentives, which clarifies the guidance in recognizing costs for consideration given by a vendor to a customer as a component of cost of sales. We are currently evaluating the impact of this standard on our consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients which amends the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to address implementation issues and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. These amendments have the same effective date as the new revenue standard. While we are currently evaluating the method of adoption and the impact of the new revenue standard, as amended, on our Consolidated Financial Statements and related disclosures, we believe the adoption of the new standard may have a significant impact on the accounting for certain transactions with multiple elements or "bundled" arrangements because the requirement to have VSOE for undelivered elements under current accounting standards is eliminated under the new standard. Accordingly, we may be required to recognize as revenue a portion of the sales price upon delivery of the software, as compared to the current requirement of recognizing the entire sales price ratably over an estimated offering period. We continue to evaluate the impact of the new revenue standard on our consolidated financial statements and related disclosures.

In August 2014, FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The standard allows for either a full retrospective or modified retrospective transition method. We do not expect this standard to have a material impact our consolidated financial statements upon adoption.

In February 2016, FASB issued ASU 2016-02, Leases. The guidance would require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2018. We are currently evaluating the impact of its pending adoption of ASU 2016-02 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Measurement of Credit Losses on Financial Instruments which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for Company's ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected will a valuation provision. The amendments will be effective for fiscal years beginning after December 15, 2019. We are evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not Applicable.

**Item 4. Controls and Procedures.**

***Disclosure Controls and Procedures***

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer concluded that as of October 31, 2016, our disclosure controls and procedures are effective as at the end of the period covered by this report.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the quarter ended October 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

Much of the information included in this quarterly report includes or is based upon estimates, projections or other “forward looking statements”. Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumption or other future performance suggested herein.

Such estimates, projections or other “forward looking statements” involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other “forward looking statements”.

**Risks Associated with our Business and Industry**

*Lack of cash flow which may affect our ability to continue as a going concern.*

Presently, our operating cash flows are not sufficient to meet operating and capital expenses. Our business plan calls for continued research and development of our products and expansion of our market share. We will require additional financing to fund working capital and pay for operating expenses and capital requirements until we achieve a positive cash flow. However, our management projects that under our current operating plan that sufficient cash is available to meet our ongoing operating expenses and working capital requirements through January 31, 2018.

However, there is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our products; or
- we incur any significant unanticipated expenses.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our proposed business plans.

We depend on a mix of revenues and outside capital to pay for the continued development of our technology and the marketing of our products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. Disruptions in financial markets and challenging economic conditions have and may continue to affect our ability to raise capital. The issuance of additional equity securities by us would result in a dilution, possibly a significant dilution, in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

*Our revenue, operating results and gross margin can fluctuate significantly and unpredictably from quarter-to-quarter and from year-to-year, and we expect that they will continue to do so, which could have a material adverse effect on our operating results.*

The rate at which our customers order our products, and the size of these orders, are highly variable and difficult to predict. In the past, we have experienced significant variability in our customer purchasing practices on a quarterly and annual basis, and we expect that this variability will continue, as a result of a number of factors, many of which are beyond our control, including:

- demand for our products and the timing and size of customer orders;
- length of sales cycles, which may be extended by selling our products through channel partners;
- length of time of deployment of our products by our customers;
- customers' budgetary constraints;
- competitive pressures; and
- general economic conditions.

As a result of this volatility in our customers' purchasing practices, our revenue has historically fluctuated unpredictably on a quarterly and annual basis and we expect this to continue for the foreseeable future. Our budgeted expense levels depend in part on our expectations of future revenue. Because any substantial adjustment to expenses to account for lower levels of revenue is difficult and takes time, if our revenue declines, our operating expenses and general overhead would likely be high relative to revenue, which could have a material adverse effect on our operating margin and operating results.

*We may be unable to predict subscription renewal rates and the impact these rates may have on our future revenue and operating results.*

Some of our products and services are sold on a subscription basis that are generally month-to-month or one year in length. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and some customers elect not to renew. We cannot provide assurance that our subscriptions will be renewed at the same or higher level of service, for the same number of licenses or for the same duration of time, if at all. We cannot provide assurance that we will be able to accurately predict future customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services, our ability to continue to regularly add features and functionality, the reliability (including uptime) of our subscription services, the prices of our services, the prices of services offered by our competitors, mergers and acquisitions affecting our customer base, reductions in our customers' spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions for our services or if they renew on terms less favorable to us, our revenue may decline.

*If we are not able to manage our operating expenses, then our financial condition may be adversely affected.*

Operating expenses of $3,487,210 exceeded revenue of $2,751,113 for the three months ended October 31, 2016. Our ability to reach and maintain profitability is conditional upon our ability to manage our operating expenses. There is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

*We face larger and better-financed competitors, which may affect our ability to achieve or maintain profitability.*

Management is aware of similar products which compete directly with our products and some of the companies developing these similar products are larger and better-financed than us and may develop products superior to those of our company. In addition to price competition, increased competition may result in other aggressive business tactics from our competitors, such as:

- emphasizing their own size and perceived stability against our smaller size and narrower recognition;
- providing customers “one-stop shopping” options for the purchase of network equipment and application software;
- offering customers financing assistance;
- making early announcements of competing products and employing extensive marketing efforts; and
- asserting infringement of their intellectual property rights.

Such competition may potentially adversely affect our profitability.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.*

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital, or a delisting from a stock exchange on which our common stock trades. Because our operations have been partially financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

On December 16, 2014, we received notice from NASDAQ that the closing bid price of our shares for the last 30 consecutive business days no longer met the minimum bid price requirement of $1.00 per share.

Effective November 2, 2015, our company effected a one-for-ten reverse stock split of the shares of our common stock. On November 16, 2015, we received notice from NASDAQ that the closing bid price of our common stock has been $1.00 or greater for the previous 30 consecutive business day’s and that we had regained compliance with listing rule 5550(a)(2). There can be no assurance that the closing bid price of our common stock will not fall below the minimum bid price requirement of $1.00 per share.

*The majority of our directors and officers are located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.*

The majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, investors may be effectively prevented from pursuing remedies under United States federal securities laws against some of our directors or officers.

*We may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect our business, results of operations and financial condition, as well as the continued viability of our company.*

We may be unaware of filed patent applications and issued patents that could relate to our products and services. Intellectual property litigation, if determined against us, could:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to lose access to key distribution channels;
- result in substantial employee layoffs or risk the permanent loss of highly-valued employees;
- materially and adversely affect our brand in the market place and cause a substantial loss of goodwill;
- affect our ability to raise additional capital;
- cause our stock price to decline significantly; and
- lead to the bankruptcy or liquidation of our company.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products or services and could cause us to pay substantial royalties, licensing fees or damages. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims.

*We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.*

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our software. If any of our competitors' copy or otherwise gain access to our proprietary technology or develops similar technologies independently, we would not be able to compete as effectively. We also consider our family of registered and unregistered trademarks including CounterPath, Bria, eyebeam, X-Lite, and Softphone.com invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of patents, patents pending, copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights.

We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and divert resources from intended uses. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

*Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.*

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced services to emerging industry standards, and our new products may not be favorably received.

*Unless we can establish broad market acceptance of our current products, our potential revenues may be significantly reduced.*

We expect that a substantial portion of our future revenue will be derived from the sale of our software products. We expect that these product offerings and their extensions and derivatives will account for a majority of our revenue for the foreseeable future. Broad market acceptance of our software products is, therefore, critical to our future success and our ability to continue to generate revenues. Failure to achieve broad market acceptance of our software products as a result of competition, technological change, or otherwise, would significantly harm our business. Our future financial performance will depend primarily on the continued market acceptance of our current software product offerings and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that we will be successful in marketing our current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm our business.

*Our use of open source software could impose limitations on our ability to commercialize our products.*

We incorporate open source software into our products. Although we closely monitor our use of open source software, the terms of many open source software licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to sell our products. In such event, we could be required to make our proprietary software generally available to third parties, including competitors, at no cost, to seek licenses from third parties to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could adversely affect our revenues and operating expenses.

*We may not be able to obtain necessary licenses of third-party technology on acceptable terms, or at all, which could delay product sales and development and adversely impact product quality.*

We have incorporated third-party licensed technology into our current products. We anticipate that we are also likely to need to license additional technology from third-parties to develop new products or product enhancements in the future. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The inability to retain any third-party licenses required in our current products or to obtain any new third-party licenses to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, and delay or prevent us from making these products or enhancements, any of which could seriously harm the competitive position of our products.

*Our products must interoperate with many different networks, software applications and hardware products, and this interoperability will depend on the continued prevalence of open standards.*

Our products are designed to interoperate with our customers' existing and planned networks, which have varied and complex specifications, utilize multiple protocol standards, software applications and products from numerous vendors and contain multiple products that have been added over time. As a result, we must attempt to ensure that our products interoperate effectively with these existing and planned networks. To meet these requirements, we have and must continue to undertake development and testing efforts that require significant capital and employee resources. We may not accomplish these development efforts quickly or cost-effectively, or at all. If our products do not interoperate effectively, installations could be delayed or orders for our products could be cancelled, which would harm our revenue, gross margins and our reputation, potentially resulting in the loss of existing and potential customers. The failure of our products to interoperate effectively with our customers' networks may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our software development efforts and cause significant customer relations problems.

Additionally, the interoperability of our products with multiple different networks is significantly dependent on the continued prevalence of standards for IP multimedia services, such as SIP or Session Initiation Protocol. Some of our existing and potential competitors are network equipment providers who could potentially benefit from the deployment of their own proprietary non-standards-based architectures. If resistance to open standards by network equipment providers becomes prevalent, it could make it more difficult for our products to interoperate with our customers' networks, which would have a material adverse effect on our ability to sell our products to service providers.

*We are subject to the credit risk of our customers, which could have a material adverse effect on our financial condition, results of operations and liquidity.*

We are subject to the credit risk of our customers. Businesses that are good credit risks at the time of sale may become bad credit risks over time. In times of economic recession, the number of our customers who default on payments owed to us tends to increase. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense.

*We are exposed to fluctuations in interest rates and exchange rates associated with foreign currencies.*

A majority of our revenue activities are transacted in U.S. dollars. However, we are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to our operations for the three months ended October 31, 2016 is the Canadian dollar. We are primarily exposed to a fluctuating Canadian dollar as our operating expenses are primarily denominated in Canadian dollars while our revenues are primarily denominated in U.S. dollars. We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. Our company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, our company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction. There can be no assurance that our hedging program will not result in a negative impact on our earnings and earnings per share. We did not enter into any forward contracts for hedging purposes during the three months ended October 31, 2016 (2015 - none).

**Risks Associated with our Common Stock**

*Our directors control a substantial number of shares of our common stock, decreasing your influence on stockholder decisions.*

Based on the 4,553,548 shares of common stock that were issued and outstanding as of October 31, 2016, our directors owned approximately 30% of our outstanding common stock. As a result, our directors as a group could have a significant influence in delaying, deferring or preventing any potential change in control of our company; they will be able to strongly influence the actions of our board of directors even if they were to cease being directors of our company and can effectively control the outcome of actions brought to our stockholders for approval. Such a high level of ownership may adversely affect the exercise of your voting and other stockholder rights.

*We do not expect to pay dividends in the foreseeable future.*

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms. We cannot assure you of a positive return on investment or that you will not lose the entire amount of your investment in our common stock.

*The exercise of all or any number of outstanding stock options or the issuance of other stock-based awards or any issuance of shares to raise funds may dilute your holding of shares of our common stock.*

If the holders of outstanding stock options, warrants and deferred share units exercise or settle all of their vested stock options, warrants and deferred share units as at October 31, 2016, then we would be required to issue an additional 688,969 shares of our common stock, which would represent approximately 15% of our issued and outstanding common stock after such issuances. The exercise of any or all outstanding stock options that are exercisable below market price will result in dilution to the interests of other holders of our common stock.

We may in the future grant to certain or all of our directors, officers, insiders and key employees stock options to purchase the shares of our common stock, bonus shares and other stock based compensation as non-cash incentives to such persons. Subject to applicable stock exchange rules, if any, we may grant these stock options and other stock based compensation at exercise prices equal to or less than market prices, and we may grant them when the market for our securities is depressed. The issuance of any additional shares of common stock or securities convertible into common stock will cause our existing shareholders to experience dilution of their holding of our common stock.

In addition, shareholders could suffer dilution in their net book value per share depending on the price at which such securities are sold. Such issuance may cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the price of our shares of common stock or a change in the control of our company.

*We may be considered a "penny stock." Penny stock rules will limit the ability of our stockholders to sell their shares of common stock.*

The SEC has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. In addition, since our common stock commenced trading on the NASDAQ Capital Market below the $4.00 minimum bid price per share requirement, our common stock would be considered a penny stock if we fail to satisfy the net tangible assets and revenue tests in Rule 3a51-1 under the Securities Exchange Act of 1934. Our securities may be covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

*The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements, which may limit a stockholder's ability to buy and/or sell shares of our common stock.*

The FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

*Securities analysts may not publish favorable research or reports about our business or may publish no information which could cause our stock price or trading volume to decline.*

The trading market for our common stock will be influenced by the research and reports that industry or financial analysts publish about us and our business. We do not control these analyst reports. As a relatively small public company, we may be slow to attract research coverage and the analysts who publish information about our common stock will have had relatively little experience with our company, which could affect their ability to accurately forecast our results and make it more likely that we fail to meet their estimates. If any of the analysts who cover us issue an adverse opinion regarding our stock price, our stock price may decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports covering us, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

***Recent Sales of Unregistered Securities***

None.

***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

| Issuer Purchases of Equity Securities | | | | |
|---|---|---|---|---|
| **Period** | **Total number of shares purchased** | **Average price paid per share (Canadian dollars)** | **Total number of shares purchased as part of publicly announced plans or programs** | **Maximum number of shares that may yet be purchased under the plans or programs** |
| August 1, 2016 to August 31, 2016 | 500(1) | $2.80 | 500 | 272,164 |
| September 1, 2016 to September 30, 2016 | 700(1) | $2.75 | 700 | 271,464 |
| October 1, 2016 to October 31, 2016 | 500(1) | $2.76 | 500 | 270,964 |
| **Total** | **1,700** | **$2.77(2)** | **1,700** | **270,964** |

(1) Purchased pursuant to a normal course issuer bid announced on March 16, 2016, which commenced on March 19, 2016 and expiring on March 18, 2017 to purchase up to 273,864 shares of our common stock.

(2) Weighted average price.

On March 16, 2016, we announced our intention to purchase, by way of a normal course issuer bid, for cancellation purposes, up to 273,864 shares of our common stock, representing approximately 10% of our then outstanding public float. We believe that our shares trade in a price range that does not adequately reflect their underlying value based on our business prospects.

Purchases will be made on the open market through the facilities of the TSX, NASDAQ Capital Market or such other stock exchange or quotation system upon which the our shares are then listed or quoted, including other Canadian marketplaces, at market prices prevailing at the time of purchase and may take place over a 12-month period beginning on March 21, 2016 and expiring on March 20, 2017. We are permitted to make block purchases once per calendar week in accordance with the rules of the TSX. The daily purchase restriction is 1,000 shares, subject to certain prescribed exemptions. All shares purchased by our company under the normal course issuer bid will be returned to treasury and cancelled.

In connection with the normal course issuer bid, we entered into an automatic share purchase plan with National Bank Financial Inc., in order to facilitate purchases of our shares. Under the purchase plan, National Bank may purchase shares on our behalf at times when we would ordinarily not be permitted to purchase shares due to self-imposed trading blackout periods, insider trading rules or otherwise. The purchase plan has been approved by the TSX and was implemented as of March 21, 2016. Purchases will be made by National Bank on the open market based upon the parameters prescribed by the TSX, applicable laws and the terms and conditions of the purchase plan.

To our knowledge, none of our directors, senior officers or other insiders (as defined in the TSX Company Manual) intends to sell any shares under the normal course issuer bid. However, sales by such persons through the facilities of the TSX may occur if the personal circumstances of any such person change or if any such person makes a decision unrelated to these normal course purchases. The benefits to any such person whose shares are purchased would be the same as the benefits available to all other holders whose shares are purchased.

Stockholders may obtain a copy of the notice submitted to the TSX with respect to the normal course issuer bid, without charge, by contacting our Chief Financial Officer.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

***Exhibits required by Item 601 of Regulation S-K***

| **(3)** | **Articles of Incorporation and By-laws** |
|---|---|
| 3.1 | Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003). |
| 3.2 | Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003). |

| | |
|---|---|
| 3.3 | Amended Bylaws (incorporated by reference from our Registration Statement on Form SB-2/A filed on September 3, 2003). |
| 3.4 | Articles of Merger (incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005). |
| 3.5 | Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 28, 2006). |
| 3.6 | Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on April 22, 2008). |
| 3.7 | Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on July 2, 2012). |
| 3.8 | Certificate of Amendment to Articles of Incorporation (incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 12, 2013). |
| **(4)** | **Instruments defining the rights of security holders, including indentures** |
| 4.1 | 2004 Stock Option Plan effective May 18, 2004 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005). |
| 4.2 | Form of Stock Option Agreement for 2004 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005). |
| 4.3 | 2005 Stock Option Plan effective March 4, 2005 (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005). |
| 4.4 | Form of Stock Option Agreement for 2005 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on June 14, 2005). |
| 4.5 | Form of Amended & Restated Stock Option and Subscription Agreement (Canadian) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005). |
| 4.6 | Form of Amended & Restated Stock Option and Subscription Agreement (US) (incorporated by reference from our Current Report on Form 8-K filed On October 14, 2005). |
| 4.7 | 2010 Stock Option Plan effective September 27, 2010 (incorporated by reference from our Definitive Proxy Statement filed on August 31, 2010). |
| 4.8 | Employee Share Purchase Plan adopted October 1, 2008, and amended November 6, 2008 (incorporated by reference from our Registration Statement on Form S-8 filed on January 30, 2009). |
| 4.9 | Amended Deferred Share Unit Plan effective September 25, 2013 (incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 12, 2013). |
| 4.10 | Amended 2010 Stock Option Plan effective July 10, 2014 (incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 11, 2014). |
| 4.11 | Amended Employee Share Purchase Plan effective July 29, 2014 (incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 11, 2014). |
| **(10)** | **Material Contracts** |

| | |
|---|---|
| 10.1 | Employment Agreement between CounterPath Solutions, Inc. and David Karp dated September 11, 2006 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2006). |
| 10.2 | Piggyback Registrations Rights Agreement among our company and various shareholders, dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007). |
| 10.3 | Form of Subscription Agreement dated October 29, 2009 between our company and various investors (incorporated by reference from our Current Report on Form 8-K filed on November 4, 2009). |
| 10.4 | Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on September 4, 2015 (incorporated by reference from our Current Report on Form 8-K filed on September 8, 2015). |
| 10.5 | Form of Warrant Certificate issued to various investors in connection with the non-brokered private placement completed on September 4, 2015 (incorporated by reference from our Current Report on Form 8-K filed on September 8, 2015). |
| 10.6 | Amended Employment Agreement between Donovan Jones and CounterPath Corporation and its wholly owned subsidiary, CounterPath Technologies Inc., dated February 17, 2016 (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 15, 2016). |
| **(14)** | **Code of Ethics** |
| 14.1 | Code of Business Conduct and Ethics and Compliance Program (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 15, 2008). |
| **(21)** | **Subsidiaries of CounterPath Corporation** |
| | CounterPath Technologies Inc. (incorporated in the Province of British Columbia, Canada) |
| | BridgePort Networks, Inc. (incorporated in the state of Delaware) |
| **(31)** | **Section 302 Certifications** |
| 31.1 | Section 302 Certification of Donovan Jones (filed herewith). |
| 31.2 | Section 302 Certification of David Karp (filed herewith). |
| **(32)** | **Section 906 Certifications** |
| 32.1 | Section 906 Certification of Donovan Jones (filed herewith). |
| 32.2 | Section 906 Certification of David Karp (filed herewith). |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**COUNTERPATH CORPORATION**

By: /s/ Donovan Jones
Donovan Jones
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: December 14, 2016

/s/ David Karp
David Karp
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

Date: December 14, 2016

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STATE OF INCORPORATION: NV
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STREET 1: 300-505 BURRARD STREET
CITY: VANCOUVER
STATE: A1
ZIP: V7X 1M3
BUSINESS PHONE: 604-320-3344

MAIL ADDRESS:
STREET 1: 300-505 BURRARD STREET
CITY: VANCOUVER
STATE: A1
ZIP: V7X 1M3

FORMER COMPANY:
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DATE OF NAME CHANGE: 20050928

FORMER COMPANY:
FORMER CONFORMED NAME: XTEN NETWORKS, INC
DATE OF NAME CHANGE: 20040507

FORMER COMPANY:
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Document 62 - RAW XML: FilingSummary.xml

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**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donovan Jones, certify that:

1. I have reviewed this Quarterly Report of CounterPath Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2016

/s/ Donovan Jones
Donovan Jones
President and Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Karp*,* certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CounterPath Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | |
|---|---|
| Date: December 14, 2016 | /s/ David Karp |
| | David Karp<br>Chief Financial Officer, Treasurer and Secretary<br>(Principal Financial Officer and Principal Accounting Officer) |

**Exhibit 32**

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donovan Jones, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report of CounterPath Corporation (the "Company") on Form 10-Q for the three months ended October 31, 2016, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donovan Jones
Donovan Jones
President and Chief Executive Officer
(Principal Executive Officer)

December 14, 2016

I, David Karp certify pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report of CounterPath Corporation (the "Company") on Form 10-Q for the three months ended October 31, 2016, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Karp
David Karp
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

December 14, 2016