

November 29, 2017

## **FINTECH SELECT LTD.**

### **MANAGEMENT'S DISCUSSION & ANALYSIS**

#### **OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the three and nine months ended September 30, 2017

The following discussion and analysis are management's assessment of the results and financial condition of Fintech Select Ltd. (formerly Selectcore Ltd.) and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 together with the related notes contained therein. These statements have been prepared in conformity with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. The Company's most recent filings are available on the SEDAR website.

#### **Management's Responsibility for Financial Reporting**

The condensed consolidated interim financial statements and Management's Discussion and Analysis (MD&A) have been prepared by Management, who, when necessary, have made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information provided in the condensed consolidated interim financial statements and in MD&A thereof. As a means of fulfilling its responsibility, Management relies on the Company's system of internal controls. This system has been established to ensure, within reasonable limits, that assets are safeguarded, transactions are properly recorded and are executed with Management's authorization and that the accounting records provide a solid foundation from which to prepare the condensed consolidated interim financial statements and the MD&A. The Board of Directors carries out its responsibility for the condensed consolidated interim financial statements principally through its Audit Committee, consisting solely of Non Management directors. This committee meets periodically, reviews the scope of the external audit, the adequacy of the systems of internal control and the appropriateness of financial reporting and then makes its recommendations to the Board of Directors. Based on those recommendations, the Board approves the condensed consolidated interim financial statements and the MD&A. All dollar amounts included in the MD&A are in Canadian dollars, except as stated otherwise.

#### **Forward-looking Statements**

The MD&A contains forward-looking statements, which reflect the Company's current expectations regarding future events. The forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "estimate", "expect", "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the

regulatory environment, fluctuations in operating results and other risks, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Many risks are inherent in the industry; others are more specific to the Company. Investors should consult the “Risk Factors” section of this MD&A as well as the Company’s ongoing quarterly filings for additional information on risks and uncertainties relating to these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. Management assumes no obligation to update or alter any forward-looking statements, as a result of new information, further events or otherwise.

### **Non-IFRS Measures**

Adjusted EBITDA is a non-IFRS measure related to cash earnings and is defined for these purposes as operating income, adjusted for non recurring items plus interest and fees related to financings, taxes, amortization and foreign exchange losses and gains. Management believes it is useful to exclude these items, as they are either non-cash expenses, or items that do not impact core-operating performance, and Management uses this information internally for forecasting and budgeting purposes.

The Company has included an Adjusted EBITDA measurement since it believes that this information would be useful to investors to help evaluate the performance of the Company. Investors should be cautioned, however, that Adjusted EBITDA should not be construed as an alternative to net income (loss) as determined in accordance with IFRS. The Company's method of calculating Adjusted EBITDA may differ from the methods used by other companies and, accordingly, it may not be comparable to similarly titled measures used by other companies.

### **Corporate Overview**

Fintech Select Ltd. TSX-V: FTEC (corporate website: [www.fintechselect.com](http://www.fintechselect.com)), formerly SelectCore Ltd. (TSX-V: SCG) is a provider of robust and disruptive Pre-paid card program solutions, and in a process of developing mobile banking solutions and Crypto-currency technologies. The company’s mission is to enable those core assets to work together in a harmoniously aligned environment to create a new and ubiquitous landscape for consumers and businesses alike. Fintech Select also operates an international call centre that provides fulfillment and customer service support to customers across all three platforms mentioned.

Our mission is to provide customers with choice, convenience and cost-effective ways to facilitate traditional and crypto financial transactions.

In July 2017, the Company announced the establishment of an Advisory Board that comprises of high profile individuals with unique skill sets germane to the fintech space.

As per the shareholders’ approval on the Company’s name change at the annual general meeting held on August 10, 2017, the Company has filed Articles of Amendment effecting its name change to Fintech Select Ltd to better reflect the Company’s plans to implement disruptive and robust solutions that the Company has been developing to integrate Cryptocurrency, P2P mobile banking and mobile wallet to its existing business and POS platforms in an effort to continue expanding its products and services to customers.

The Company also has filed a patent application for its propriety POS (Point-Of-Sale) Cryptocurrency platform.

## Selected Consolidated Financial Information

The following selected consolidated financial information has been derived from our condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 and 2016 and our financial positions as at September 30, 2017 and December 31, 2016.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>REVENUE</b>	\$ 898,729	\$ 1,535,160	\$ 2,927,497	\$ 4,300,553
<b>EXPENSES</b>				
Goods and services purchased	374,801	582,755	1,139,198	1,619,471
Salaries and benefits	392,718	409,202	1,376,698	1,290,215
General and administrative	254,104	345,110	912,363	1,247,169
Stock based compensation	--	--	94,980	--
Foreign exchange loss (gain)	(17,877)	6,917	(31,224)	16,156
Amortization	31,244	41,194	100,928	158,731
Loss on disposal of equipment	--	--	5,896	--
	1,034,990	1,385,178	3,598,839	4,331,742
<b>Operating loss before the following</b>	(136,261)	149,982	(671,342)	(31,189)
Interest on demand loan	(550)	(179,453)	(186,423)	(612,451)
Gain on forgiveness of interest	--	--	770,047	--
Gain on settlement of debts	25,948	--	25,948	--
<b>Net loss</b>	(110,863)	(29,471)	(61,770)	(643,640)
Other comprehensive income from translation of foreign entity	22,441	(8,818)	42,759	34,080
<b>Comprehensive loss</b>	\$ (88,422)	\$ (38,289)	\$ (19,011)	\$ (609,560)
<b>Loss per share</b>				
Basic and diluted	\$ (0.0019)	\$ (0.001)	\$ (0.0013)	\$ (0.0214)
<b>Weighted average number of shares outstanding</b>				
Basic and diluted	59,734,446	30,037,852	45,855,178	30,037,852
Adjusted EBITDA	\$(105,017)	\$ 191,176	\$ (475,434)	\$ 127,542

## Summary of the Quarterly Results for the past 12 Quarters

			Revenue \$	Net income(loss) \$
<u>2017</u>		3 <sup>rd</sup> qtr.	898,729	(110,863)
		2 <sup>nd</sup> qtr.	1,047,333	443,647
		1 <sup>st</sup> qtr.	981,435	(394,551)
<u>2016</u>		4th qtr.	1,897,805	1,615,005
		3 <sup>rd</sup> qtr.	1,535,160	(29,471)
		2 <sup>nd</sup> qtr.	1,686,295	(215,496)
		1 <sup>st</sup> qtr.	1,079,098	(398,673)
<u>2015</u>		4th qtr.	2,475,871	(819,048)
		3 <sup>rd</sup> qtr.	2,026,957	(450,069)
		2 <sup>nd</sup> qtr.	2,084,902	(458,869)
		1 <sup>st</sup> qtr.	3,142,068	15,348
<u>2014</u>		4th qtr.	4,125,455	(519,566)
		3 <sup>rd</sup> qtr.	5,411,416	(270,075)
		2 <sup>nd</sup> qtr.	5,527,197	(442,276)
		1 <sup>st</sup> qtr.	5,687,958	(142,131)

### **Financial position**

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Current assets	\$ 1,512,071	\$ 3,344,448
Total assets	1,959,106	3,890,120
Current liabilities	7,581,915	13,806,214
Total liabilities	7,581,915	13,806,214
Total shareholders' deficit	\$ (5,622,809)	\$ (9,916,094)

### **Third Quarter Results of Operations**

Revenues for the third quarter 2017 were \$898,729, compared to \$1,535,160 for the third quarter 2016. The reduction in revenue is mainly due to that the contract with City of Toronto expired at the end of June 2017. Gross profit (revenue less cost of goods and services purchased) for the third quarter 2017 was \$523,928 compared to \$952,405 in the third quarter of 2016. Gross margin for the third quarter 2017 is 58% compared to 62% for the third quarter of 2016. The lower gross margin was in line with the lower revenue. The Company is pursuing the addition of new revenue growth opportunities in the Cryptocurrency and P2P mobile banking solutions sectors.

Salary and benefit expenses were \$392,718 for the third quarter 2017, compared to \$409,202 for the third quarter of 2016. Other general and administrative expenses were \$254,104 for the third quarter 2017, compared to \$345,110 for the third quarter of 2016. The lower general and administrative

expenses in the third quarter 2017 was due to the lower mastercard service charge as a result of lower transaction volumes.

Interest expense was \$550 for the third quarter 2017, compared to \$179,453 for the third quarter of 2016. The lower interest expense in third quarter 2017 was due to the decreasing loan balances after repayments were made and lower interest rate which was reduced from 27% to 12% starting April 1, 2017 and further to 6% starting May 16, 2017.

The Company recorded \$17,877 foreign exchange gain for the third quarter 2017, compared to \$6,917 foreign exchange loss in the third quarter 2016.

Depreciation and amortization was \$31,244 for the third quarter 2017, compared to \$41,194 for the third quarter 2016. The decrease was due to lower balances of property and equipment and intangibles.

The Company had a net loss of \$110,863 (or \$0.0019 per share) for the third quarter 2017, compared to a net loss of \$29,471 (or \$0.001 per share) for the third quarter 2016. The exchange difference on the translation of the Company's US foreign operations for the third quarter 2017 was a gain of \$22,441 compared to a loss of \$8,818 for the third quarter 2016, which resulted in the total comprehensive loss for the third quarter 2017 of \$88,422 as compared to the comprehensive loss of \$38,289 for the third quarter 2016.

The Company realized negative EBITDA of (\$105,017) for the third quarter 2017, compared to EBITDA of \$191,176 for the third quarter 2016. This is primarily due to that the contract with City of Toronto expired at the end of June 2017.

## **Year to date**

Year to date Revenues as of September 30, 2017 were \$2,927,497 compared to \$4,300,553 for the same period ending September 30, 2016. Year to date gross profit (Operating Revenue less cost of goods and services purchased) as at September 30, 2017 was \$1,788,299 compared to \$2,681,082 in the same period ending September 30, 2016. The reduction in revenue is mainly due to the expiry of contact with City of Toronto at the end of June 2017 and the higher business volume from Government of Alberta during the Fort McMurray Wildfire in the second and third quarter 2016. Year to date gross margin as at September 30, 2017 is 61% compared to 62% for the same period ended September 30, 2016.

Year to date salary and Benefit expenses were \$ 1,376,698 at September 30, 2017 compared to \$1,290,215 at September 30, 2016. Year to date other general and administrative expenses were \$912,363 at September 30, 2017 compared to \$1,247,169 at September 30, 2016. The higher general and administrative expenses in 2016 was due to the higher mastercard service charge caused by higher volume of transactions during the Alberta Wildfire. The lower salary and benefit in 2016 was mainly due to capitalization of salary related to software development for \$54,056 and vacation pay incurred in the second quarter 2017.

Year to date interest expense was \$186,423 at September 30, 2017, compared to \$612,451 at September 30, 2016. The decrease of 70% in interest expense was due to much lower interest rate and loan balance as mentioned above.

The Company recorded \$31,224 foreign exchange gain year to date as of September 30, 2017 compared to \$16,156 loss at September 30, 2016.

The Company had a net loss of \$61,770 for the nine months ended September 30, 2017 compared to net loss of \$643,640 for the nine months ended September 30, 2016.

The Company realized negative EBITDA of \$475,434 for the nine months ended September 30, 2017, compared to an EBITDA of \$127,542 for the nine months ended September 30, 2016. The lower loss in 2017 was mainly due to the waived interest of \$770,047. The lower EBITDA loss in 2016 was due to the high business volume from Government of Alberta during the Fort McMurray Wildfire and the expiry of City of Toronto contract at the end of June 2017.

## **Financial Condition**

### **Assets and liabilities**

As at September 30, 2017, the Company had total assets of \$2.0 million and total liabilities of \$7.6 million compared to \$3.9 million and \$13.8 million as at December 31, 2016. The decrease of liabilities was mainly due to the repayment of the majority of the demand loan at a discount and the lowered liability to cardholders due to the expiration of City of Toronto's contract on June 30, 2017. The working capital deficiency had decreased significantly from \$12.1 million on September 30, 2016 to \$10.5 million on December 31, 2016 and to \$6.1 million on September 30, 2017.

### **Liquidity and Capital Resources**

As at September 30, 2017, the Company's cash includes restricted cash balances of \$31 thousand (December 31, 2016 - \$2.56 million) in designated special collateral accounts in designated banks that belong to the unspent cards balances under the terms of the special agreements with credit union/financial institution as further explained in Note 1 of consolidated financial statements. Withdrawals from the accounts can only be made with the approval of the credit union/financial institution.

We intend to use our funds to meet funding requirements for business development and new customer deployments based on anticipated market demand. Our actual funding requirements will vary depending on a variety of factors, including our success in executing our business plan, the progress of our product and business development efforts, our sales and our ability to manage our working capital requirements. We believe that in addition to our existing cash balances and cash generated from operations, cash proceeds from new debt and equity financing will be required to meet our anticipated cash needs for working capital, growth capital and capital expenditures for the foreseeable future. The Company will need to raise additional capital to meet all of its existing obligations, to repay its demand loan, to address the Company's working capital deficiency and to fund new contracts in the financial services sector. The Company does not have any prearranged facilities but will continue to evaluate the appropriate timing and type of capital raise. There are no guarantees that the Company will be successful in completing an equity financing, arrange for additional debt with its current lender or obtain a new debt facility.

On April 13, 2017, the Company completed a private placement. The Company issued 13,333,333 units at a price of \$0.15 per unit and raised aggregate proceeds of \$2,000,000. Each unit consists of one common share and one common share purchase warrant with an exercise price of \$0.20 for a period of three years.

On June 12, 2017, the Company completed a private placement. The Company issued 5,840,000 units at a price of \$0.25 per unit and raised aggregate proceeds of \$1,460,000. Each unit consists of one common share and one common share purchase warrant with an exercise price of \$0.35 for a period of three years.

## **Control and Procedures**

The Chief Financial Officer and the Senior Management have evaluated the effectiveness of our disclosure controls and procedures for the period ended September 30, 2017 and have concluded that our disclosure controls and procedures are effective to ensure that material information relating to the Company was recorded, processed, summarized and reported in a timely manner as required to enable the Company to satisfy its continuous disclosure obligations. Our Chief Financial Officer and Senior Management are also responsible for the design of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS (International Financial Reporting Standards). There were no changes in the Company's internal controls over financial reporting during the Company's most recent period that have materially affected, or are reasonably like to materially affect, the Company's internal control over financial reporting.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### **Nature of Operations and Going Concern Uncertainty**

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations in the foreseeable future and that it will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has had continued losses, cash outflows from operations and has negative working capital at period-end, which raises a question as to the ability of the Company to continue as a going concern without additional equity or long-term debt financing.

The ability of the Company to sustain its ongoing operations is dependent upon its ability to obtain a sustainable level of profitability from operations or to raise sufficient financing enabling it to rectify its working capital deficiency.

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the going concern assumption not be appropriate.

The Company has a working capital deficiency of \$6,189,844 (December 31, 2016: \$10,461,766). The Company expects it will have sufficient liquidity to finance its operations for no more than twelve months. The working capital deficiency limits the Company's ability to fund capital expenditures and operations. The Company is not in breach of any minimum working capital and earnings covenants as of the date of these financial statements.

As a result of the aforementioned cash flow deficiencies there is significant doubt about the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent on raising some short term financing, raising sufficient working capital to maintain operations, reducing operating expenses, and increasing revenues. Consequently the salaries and benefits expenses have dropped by significantly as compared to prior year. The Company has also initiated an internal restructuring to sell redundant assets and reduce operating expenses. These plans are expected to be completed within a short time, and are expected to generate sufficient liquidity to finance operations until the cash flow from the operations are sufficient to meet the working capital requirements. While management believes that the likelihood of completing these plans is high given the economic recovery and the rebound of the industry, there is

no assurance that it will be. Without enough financing the Company may be forced to cease operations.

## **Critical Accounting Estimates**

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to the consolidated financial statements. While management believes that these estimates and assumptions, based on management's best knowledge of current events and actions that the Company may undertake in the future, are reasonable, actual results could differ from these estimates.

Significant estimates and assumptions include those related to the valuation of investments, determination of amount recorded as software license revenue, valuation of share based payments, the useful lives of property and equipment for amortization purposes, amounts recorded as accrued liabilities, recognition of deferred tax assets, amount recorded as deferred revenue, allowance for doubtful accounts, and the fair values of financial instruments.

These estimates have been applied in a manner consistent with that in prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the assumptions utilized in these consolidated interim financial statements. The estimates are impacted by many factors, some of which are highly uncertain.

## **Future accounting changes**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes

give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

The Company has not yet determined the impact of the above standards on its financial statements.

### **Key Management Compensation**

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. Company's key management personnel includes Chief Executive Officer & President, Chief Financial Officer and Vice President.

Remuneration of key management of Company was as follows:

	Three months ended September 30	
	2017	2016
Salaries and Benefits	\$ 89,441	\$ 64,453

### **General Risk Factors**

An investment in our common shares is speculative and subject to a number of risks. Before investing, prospective purchasers of common shares should carefully consider the following risk factors set out in this AIF, as well other risk factors addressed in our other continuous disclosure filings made with Canadian securities regulators via SEDAR. The following is only a summary of certain risks relating to the Company's business and should be read in conjunction with detailed information appearing elsewhere in this document. The risks and uncertainties described below are not the only risks and uncertainties the Company faces. Additional risks and uncertainties not currently known to the Company or that the Company currently deems immaterial also may impair the Company's business operations. If any of the following risks actually occur, the Company's business, results of operations and financial condition could suffer. In that event, the trading price of the Company's Shares could decline and holders of the Company's shares could lose all or part of their investment in the Company's shares.

### **Liquidity**

We are subject to a working capital deficit, which means that our current assets on September 30, 2017 did not equal our current liabilities and, therefore, should we be unable to increase our current assets to current liability ratio; our operations could be at risk. A substantial portion of our cash flow from operations is dedicated to the payment of principal and interest on our indebtedness and on software development of our prepaid cards platform. Our ability to service our debt and other financial obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control, including but not limited to, fluctuations in interest rates, market liquidity conditions, increased operating costs and trends in our industry. If our cash flow and capital resources are insufficient to meet our debt service obligations, we may be forced to reduce the scope of, or delay, capital

expenditures, growth initiatives, product and service launches and future business opportunities, and sell assets, seek additional capital or restructure or refinance our indebtedness. Furthermore our credit facility contains certain restrictive covenants that, subject to exceptions, limit the ability to, among other things: incur, assume, or permit to exist additional indebtedness, guarantees or liens, engage in mergers, acquisitions, asset sales, declare dividends, make payments on, or redeem or repurchase equity interests, alter the nature of the business, engage in certain transactions with affiliates, enter into agreements limiting subsidiary distributions, and prepay, redeem or repurchase certain indebtedness. The credit facility also requires us to comply with certain financial covenants that may prevent us from pursuing certain business opportunities and taking certain actions that may be in the best interest of our business, which could materially adversely affect our business and financial results.

## **Legacy Business Revenues**

Our legacy prepaid telecommunications business is the sale of prepaid mobile airtime, and to date, the majority of our revenue has been derived from sales of these products. Revenues have declined considerably as the Company remained focused on new, more profitable business opportunities in the financial services and fintech space. The industry has also seen a shift to electronic forms of payment for prepaid mobile airtime sales. Our sales agreements with our retailers and distributors do not obligate them to make minimum purchases of any of our products. There is no assurance that retailers or distributors will continue to purchase our products or that the Company will be able to secure new retail clients or that end-user demand for our products or services will sustain or increase. Accordingly, there is no assurance that we will be able to maintain or increase our revenues. Our inability to maintain or increase our revenues may result in us incurring losses or reduced profitability thus resulting in a significant impact to the Company's financial position.

## **Cash Flows and Profitability**

We have not consistently earned profits to date, and there is no assurance that we will earn profits in the future, or that profitability, as achieved, will be sustained. A significant portion of our financial resources have been, and will continue to be, directed toward the development of our new financial product and service offerings and marketing activities. Our success will ultimately depend upon our ability to generate revenues, such that business development and marketing activities may be financed by revenues from operations instead of external financing. There is no assurance that future revenues will be sufficient to generate the required funds to continue the business development and marketing initiatives. Our current and future expense levels are based largely on our investment plans and estimates of future revenues and are, to a large extent, fixed. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues relative to our planned expenditures would have an immediate adverse effect on our business, results of operations, cash flow and/or financial condition. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions that could have a material adverse effect on our business, results of operations, financial condition and/or prospects.

## **Supplier Dependency**

We rely on telecommunication and financial network partners and suppliers with whom we have business arrangements. Our success depends on our ability to meet our obligations to these partners and suppliers. In third quarter 2017, the Company had three major suppliers, each accounting for more than 20% of total cost of goods sold, representing approximately 77%. The loss of a contract with any partner or supplier could have a significant negative impact on our sales and profitability.

## **Customer Relationships and Loss of Major Customers**

Our failure to maintain our customer relationships or to develop similar relationships with other customers could result in decreased support for our products or services, which could materially adversely affect our business, financial condition and/or results of operations. The loss of one or more of our major customers, the failure to attract new customers on a timely basis or a reduction in sales and revenues associated with our existing customers would materially harm our business, financial condition, liquidity, operating results and/or prospects. Three customers, each accounting for more than 5% of total revenues, represent 53% of the Company's revenue in the third quarter 2017 (2016 - three customers, each accounting for more than 5% of total revenues, represented 79%). The loss of a contract with any customer could have a significant negative impact on our sales and profitability.

## **Retail Distribution Channel and Reliance on Distributors and Sales Agents**

Our current sales and future growth relies heavily on our distributors and sales agents and the ability to maintain and expand our network of retail locations /merchants and the willingness of such distributors, sales agents and merchants to purchase and make available for sale both our current and new product offerings to their customers. We also rely on our ability to properly support our merchant channel and product and service offerings with adequate merchandising, point-of-purchase collateral and ancillary advertising all of which requires a capital investment to be made by us. Our failure to maintain current product sales or realize new product sales through our retail distribution channel would adversely affect our results of operations and financial condition and also materially affect our ability to execute on our growth strategy.

## **Lack of Operating History with New Business Segments**

The Company is in the process of expanding its current business segments to include Cryptocurrency technology and solutions related to the Company's existing Point of Sale (POS) platform, mobile payment and banking services, and digital wallet services. The Company has a limited history of operations in these business segments and it is in the early stage of development. As such, we are subject to many risks common to such businesses, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and the lack of revenues and profitability. We also need to be able to effectively train existing employees and employ new specialized personnel for this area of our business.

## **Risks Associated With Evolving Business Models and New Product Launches**

Our business model continues to evolve. We seek to develop, launch and promote new or complimentary products, services, technology and opportunities that management believes are strategic. We publicly announce new product launch and development initiatives on a regular basis to update shareholders and the investment community. Readers are cautioned that while we make such announcements, there can be no assurance that we will be able to launch such product offerings in a cost effective manner or in the time frame estimated by management or that any such efforts will generate revenues, profits or garner market acceptance. Furthermore, any new business or product launched by us that is not favourably received by customers could damage our reputation and diminish the value of our brands. Expansion of our operations in this manner would also require significant additional expenses and development, operations and other resources and would strain our management, financial and operational resources. The lack of market acceptance of such services or our inability to generate satisfactory revenues from such expanded services or product launches to offset their costs could have a material adverse effect on our business, results of operations, cash flow, financial condition and/or prospects.

## **Uncertain Demand**

Demand for our products and services are dependent on a number of social, political and economic factors that are beyond our control. While we believe that demand for our products and services will continue to grow, there is no assurance that such demand will exist or that our products or services will be purchased to satisfy such demand.

## **Effective Growth Management**

If we fail to manage our growth effectively, our business and operating results could be adversely affected, which could cause the market price of the Common Shares to fall. We expect to continue to grow our operations domestically and internationally. The growth in our operations and staff has placed, and will continue to place, a strain on existing management systems and resources. If we fail to manage the company's future anticipated growth, the business may experience higher operating expenses, and consequently it may be unable to meet the expectations of shareholders, securities analysts or prospective investors with respect to future operating results.

## **Competition**

We operate in a highly competitive marketplace with various competitors. Increased competition may result in reduced gross margins and/or loss of market share, either of which would seriously harm our business and results of operations. Management cannot be certain that we will be able to compete successfully against current or future competitors or that competitive pressure will not seriously harm our business. Some of the competitors may be able to respond more rapidly to new or emerging products and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Furthermore, some of these competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties in the industry to increase their ability to rapidly gain market share. It is important to note that some of our competitors are also both customers and suppliers of the Company and therefore it is important for us to maintain amicable relationships with such competitors and co-exist in the marketplace.

## **Financing Requirements and Availability of Capital**

We expect our capital requirements to increase due to growth of the prepaid financial services industry, the proposed expansion of our marketing and business development activities, and to the required inventory of top-ups products if the Company decides to increase the revenue of this side of the business. The exact amount of our future capital requirements could be adversely affected by numerous factors, including, but not limited to, slower growth and adverse changes in our business environment, delays in growth of our customer base, government regulations, failure or delays in executing marketing programs and growth that is more rapid than anticipated or competitive pressures. We may also need to raise additional funds sooner than anticipated in order to acquire businesses, technologies or products, or fund investments and other relationships we believe are strategic. Accordingly, our actual capital requirements may vary from currently anticipated needs, and such variations could be material. There can be no assurance that additional financing will be available on commercially reasonable terms or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to fund our expansion, take advantage of strategic acquisitions, investments or other opportunities or respond to competitive pressures. Such inability to obtain financing when needed could have a material adverse effect on our business, results of operations, cash flow, financial condition and/or prospects. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders will be reduced, shareholders may experience additional dilution and such securities may have rights,

preferences and privileges senior to those of the Common Shares.

### **Share Price and Volume Volatility**

Our Common Shares may be affected by limited or sporadic trading volumes, which may affect our shareholders' ability to sell our Common Shares. Our share price may be volatile and could be subject to wide fluctuations due to a number of factors including the risk factors described in this Annual Information Form. In addition, broad fluctuations in the financial markets as well as economic conditions may adversely affect the market price of our Common Shares.

### **Fluctuation in Operating Results**

We may experience fluctuations in future quarterly operating results that may be caused by many factors, including but not limited to: (i) variability of sales to new and existing customers; (ii) changes in the level of marketing and other operating expenses; (iii) competitive factors; and (iv) the timing of delivery. Consequently, we believe that period-to-period comparisons of our operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that our future quarterly operating results from time to time will not meet the expectations of securities analysts or investors, which may have a material adverse effect on the market price of the Common Shares. Until the point where we are able to generate and predict continued positive cash flows from recurring revenue, we face risk in utilizing our existing cash resources and potentially requiring further cash infusions from investors to maintain our operations.

### **Reliance on Key Personnel**

To date, we have been dependent on a relatively small number of key officers and employees. Our senior executives have experience in our industry and with our business, products and customers. The loss of knowledge of our operations, management expertise and technical proficiency as a result of the loss of one or more members of our core management team, could result in a diversion of management resources or a temporary executive gap, or negatively affect our ability to develop and pursue other business strategies, which could adversely affect our business and/or financial results. Furthermore, due to the technical nature of the business, we are dependent upon our ability to continue to attract and retain qualified management, marketing, information technology and technical personnel. There is competition for qualified personnel in our line of business and geographic regions and there can be no assurance that we will be able to continue to attract and retain qualified personnel necessary for the development of the diverse business in which we compete. If we are not able to retain qualified personnel for our financial services business, our product development and implementation initiatives will be impaired and/or delayed thereby adversely affecting our cash flow, financial condition and/or results of operations.

### **Credit Risk and Bad Debts**

We regularly evaluate the risk of collections from sales to new and existing customers based on the size, payment history and type of customer. There is always a risk that some customers may not honor their accounts with us, resulting in our being unable to collect outstanding amounts resulting in a charge for bad debts being incurred during a specific period. Any significant bad debt or our inability to collect on amounts due from customers could materially adversely affect our cash flow, financial condition and/or results of operations.

### **Regulatory Regime**

From time-to-time, governments and regulatory bodies may review the legislation and regulations

applied to the telecommunication and financial services industries in which we operate. Such reviews could result in the enactment of new laws and/or the adoption of new regulations in Canada or the United States of America or abroad, which might adversely impact businesses in Canada and the USA or other countries in general and consequently, may threaten our growth prospects. More specifically, we are expanding into the financial services industry, which is strictly regulated. Regulation is extensive and designed to protect consumers and the public, while providing standard guidelines for business operations. In the offering of our financial products, we or our partners are subject to certain federal and provincial laws and regulations relating to our financial product offerings, including laws and regulations governing such things as Know-Your-Customer (KYC), Anti-Money Laundering (AML), Anti-Terrorist Financing (ATF) and safeguarding the privacy of customers' personal information. Legislation has been passed in most provinces with respect to prepaid gift or stored-value cards. The Canadian government recently released its consultation paper *Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime*, which contains proposals to strengthen the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Several of the proposals relate to emerging payment technologies and could have a significant impact on the payments and cards industry in Canada. We believe that at this time we are in compliance with all laws and regulations although many of the rules that apply to us have only recently been implemented, are complex and sometimes ambiguous and, accordingly, we cannot assure that we are in 100% compliance with all applicable laws, much less that all courts, arbitrators and regulators would agree that we are in 100% compliance. Failure to comply with, or changes to, existing or future laws and regulations could result in significant unforeseen costs and limitations, and could have an adverse impact on our business, results of operations and/or financial condition.

## **Economic Risk**

A major change in any of the market segments that are serviced by us, could potentially impact our ability to sell products and services within those segments and would have a negative effect on our business. The general economic environment, notably in the telecommunications and financial services sector, impacts us and our subsidiaries in many ways, including customer spending, capital availability and funds available for marketing and advertising. An economic slowdown could also cause the demand for our products or services to decline. Growth in our customers' businesses is affected by the economic environment and could therefore have an impact on the Company's operating results. We can neither predict the impact current economic conditions will have on our future results, nor predict when the economy will show meaningful improvement. Our current and potential customers might reduce or delay purchases or projects or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, competition increases and prices might be reduced by certain competitors to maintain or expand their market share. Our pricing and profitability could be adversely affected as a result of such factors.

## **Liabilities from Acquisitions**

A portion of the growth strategy of our business includes the pursuit of acquisition opportunities in synergistic markets. While our acquisition process typically includes extensive due diligence on the business or assets to be acquired and acquisition agreements typically include detailed representations and warranties respecting the business or assets being acquired, there can be no assurance that we would not become subject to certain undisclosed liabilities associated with the acquired assets that we failed or were unable to discover during the due diligence process prior to the closing of the acquisition. The discovery of any unrecoverable material liabilities could have a material adverse affect on our business, financial condition and/or future prospects. An asset purchase or acquisition financed using cash and/or Common Shares in the capital of the Company may also be considered dilutive to shareholders and/or impact the Company's cash position.

## **Changes in Technology**

If we are unable to respond to the rapid changes in technology and services that characterize our industry, our business and financial condition could be negatively affected. Our business may be impacted by changes in the telecommunications or financial services industry. Both of these industries are subject to technological change, new product and service introductions and evolving industry trends. These factors could affect the market for our products, accelerate the obsolescence of our offerings and necessitate changes to our product and service lines. We believe that our future success will depend largely on our ability to anticipate or adapt to such changes, to offer on a timely basis, services and products that meet these evolving trends and demands of our customers, retailers and distributors. We also believe that our future success will depend upon how successfully our telecommunication and financial network partners and suppliers are able to respond to changing technologies and products. New technology may reduce demand for the products and services we currently are able to offer through these partners and suppliers. We cannot offer any assurance that we will be able to respond successfully to these or other technological changes, or to new products and services offered by our current and future competitors, and cannot predict whether we will encounter delays or problems in these areas, which could have a material adverse affect on our business, financial condition and/or results of operations.

## **Network and Internal Fraud**

If a fraud occurs on any of the networks or on our network, this could result in a cost to the company if it is determined that the breach is a result of our negligence or failure to follow network rules or regulations (or where the fault is not ours but the perpetrator of the fraud cannot be located or cannot be collected from). As new methods of intrusion and fraud emerge in the industry, we may have to incur significant additional costs to implement additional security precautions (which may be undertaken by us voluntarily or as a result of network rule changes). Furthermore, the occurrence of frauds can result in a loss of consumer confidence, which may result in declining transaction volumes with financial products. Any of these circumstances could lead to our cash flow being adversely impacted.

We employ a number of employees and contractors that have access to our systems and infrastructure and if one or more of these individuals in key control positions were to perpetrate a fraud (for example, relating to settlement of transactions, altering account deposit details, changing customer charging details or creating fake accounts), this could have a negative impact on our cash flow. We implement internal controls and maintain insurance for network and internal fraud as described under the Insurance section in this Annual Information Form. See “Narrative Description of the Business – Insurance”.

## **Infrastructure Stability**

Our product and service offerings depend on the stability, functionality and scalability of our network infrastructure and technology platforms and that of our third-party suppliers that if not stable, could negatively impact the effectiveness of our products or services, resulting in harm to our reputation and business. If weaknesses in such infrastructure exist, we may not be able to correct or compensate for such weaknesses. If we are unable to address weaknesses resulting from problems in such infrastructure such that our products do not meet customer needs or expectations, our reputation, and consequently, our business may be significantly harmed.

## **Disaster Recovery**

Our business and operations are highly automated and a disruption or failure of our systems may delay our ability to complete sales and to provide services. A major disaster or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations. This possible disruption may materially and adversely affect our future operating results.

### **Software Viruses and Network Intrusion**

We maintain many different networks and management information systems (some of which are interconnected and some of which are connected to the internet or to other external networks). We may be susceptible to viruses and network intrusions by third parties. Any intrusion or virus could impact the performance of the transaction processing capabilities of the Company and in a worst case scenario could require temporary shutdown of the affected systems and compromise customer information, users and employees. Systems that are accessed through the internet are also subject to "denial of service" attacks (these attacks do not involve an intrusion into the system but can effectively make the systems unavailable to Company customers/employees). We maintain security policies and procedures to manage these risks, some of which include intrusion detection software, virus monitoring software, IP blocking, IP tracking software, complex encryption for transactions, network monitoring and reporting solutions as well as application and data base level restrictions and controls through network design and implementation.

### **Improper Disclosure of Personal Data**

We store and process large amounts of personally identifiable information, consisting primarily of customer information and transactions. It is possible that our security controls over personal data, training of employees and other practices we follow may not prevent the improper disclosure of personally identifiable information. Such disclosure could harm our reputation and subject us to liability under laws that protect personal data, which could have a material adverse affect on our business and/or financial condition.

### **Proprietary Information**

We rely on a combination of copyright, trademark and trade secret laws, confidentiality procedures, contractual provisions and other measures to protect our proprietary information. All of these measures afford only limited protection. These measures may be invalidated, circumvented or challenged. Despite our efforts to protect proprietary rights, unauthorized parties may attempt to obtain or use information that the Company regards as proprietary. If the Company were not granted approval on pending or future patent or trademark applications, our intellectual property would not be protected against infringement of other parties.

### **Conflicts of Interest**

As certain of our directors and officers are directors, officers or shareholders of other companies, there are potential conflicts of interest to which our directors or officers may be subject to from time to time, in connection with our operations.

### **Litigation and Judgement**

The Company may get involved from time to time in litigation, as plaintiff and defendant, which arises in the normal course of business. During the last years the company was served with statement of claims as follows:

- a) During the first quarter of 2014 the Company was served with statement of claim from Globalive Wireless Management in the amount of \$1,041,226 arising over a dispute in amounts owing for prepaid wireless pins. The full amount of the claim is included in the Company's accounts payable. The statement of claim was followed by a garnishment judgment.
- b) The Company also was served in the second half of 2015 with a statement of claim from Collins Barrow in the amount of \$128,000 arising over a dispute in amounts owing to provided auditing services for the years 2012 and 2013.
- c) On April 18, 2017, the Company was served by PACE Savings & Credit Union Limited ("**PACE**") with a Statement of Claim filed in the Ontario Superior Court of Justice for the amount of \$4,000,000. The claim relates to the shortfall of a secured cash pledge ("Secured Deposit"), as per the Special Account Agreement executed between the Company and All Trans Financial Services Credit Union Limited ("**All Trans**"), which was acquired by PACE. The Company has been disclosing this shortfall in its financial statements during the previous years.
- d) On September 28, 2017, the Company was served by Home Trust Company ("**Home Trust**") with a Statement of Claim pursuant to the Simplified Rules of the ADR Institute of Canada. The claim relates to a shortfall in a funding account created pursuant to a Card Management Agreement among Fintech Select and Home Trust and, in particular, minimum monthly fees. The Company has been disclosing these payables in its financial statements during the previous years.

The company is in the process to actively resolve all the matters above.

## **Financial Risk Management**

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by the accounting and finance department under policies approved by the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

### **(a) Market Risk**

#### **(i) Currency Risk**

The Company operates primarily in Canada and has a subsidiary in USA. The Company has exposure to foreign exchange risk. Foreign exchange risk arises from purchase and sales transactions, as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign exchange is to maintain Canadian cash on hand to support Canadian forecasted cash flows over a 12 month horizon. To achieve this objective, the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of cash held.

Balances denominated in USD at September 30, 2017 and 2016 are as follows:

	2017	2016
Cash	\$ 129,728	\$ (2,989)
Accounts receivable and other receivables	99,712	39,318
Accounts payable and accrued liabilities	(1,150,577)	(892,773)
<b>Total net receivable (liability)</b>	<b>\$ (921,137)</b>	<b>\$ (856,444)</b>

Fluctuations in the Canadian dollar exchange rate have an impact on the Company's results from operations. They can impair the ability of the Company to pay its foreign currency-denominated expenses.

Fluctuation of the U.S. dollar relative to the Canadian dollar of 5% would impact net loss by approximately \$ 46,057 at September 30, 2017 (2016 impact net loss \$42,822).

(ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk.

The Company's demand loan has fixed interest rates. Fluctuations in market rates of interest would not change the Company's interest expense.

**(b) Credit Risk**

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk of the Company at period-end is the carrying value of its cash, accounts receivable and amounts due from related parties.

The Company manages credit risk by maintaining bank accounts with Schedule 1 banks in Canada and investing only in cash.

Cash is held with Canadian chartered banks.

Financial instruments that potentially subject the Company to credit risk consist of accounts receivable, amounts due from related parties and other receivables. The Company does not require collateral or other security for accounts receivable or amounts due from related parties. The Company estimates its provision for uncollectable amounts based on analysis of the specific amount and debtor's payment history and prospects.

Top three customers represent 65% of accounts receivable at September 30, 2017 (2016 - four customers represented 68%). Subsequent to the September 30, 2017, 44% (2016 - 22%) of the balance was collected. As at September 30, 2017, approximately \$243,287 (2016 - \$578,147) of the Company's receivable were past due the average credit period of 60 days of which approximately \$129,341 (2016 - \$396,620) have been allowed for.

**(c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at September 30, 2017, the Company has accounts payable and accrued liabilities and demand loan of \$7,421,333 due within 12 months (December 31, 2016: \$13,651,932), cash of \$852,295 (December 31, 2016 - \$2,601,224) and receivables of \$551,423 (December 31, 2016 - \$641,105) to meet its current obligations. As a result the Company has liquidity risk.

### **Capital Risk Management**

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued common shares, warrant reserve, contributed surplus and deficit, equity portion of long term debt, proceeds received for units to be issued, accumulated other comprehensive income and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its growth activities, and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and or debt financing.

The Company's overall capital risk management strategy has been to expedite customer payments and reduce credit terms offered to certain customers.

### **Commitments**

The Company has net lease commitments for premises and equipment requiring the following minimum annual payments:

Within 1 year	\$	102,781
2 to 6 years		<u>114,538</u>
	\$	<u>217,319</u>

### **Additional Information**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).