

# **NamSys Inc.**

## **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED JULY 31, 2018**

On November 1, 2016, Cencotech Inc. (“Cencotech”) amalgamated with its wholly owned subsidiary, NamSys Inc. (“NamSys”), and continued to operate under the name NamSys Inc. (“the Company”).

The following is a discussion and analysis of the results of operations and financial condition of the Company for the nine months ended July 31, 2018 and 2017 along with certain factors that may affect the Company’s prospective financial condition and results of operations.

### **Forward-Looking Statements**

This MD&A contains forward-looking information. All statements, other than statements of historic fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of revenue, cash flow, costs, economic return) constitute forward-looking information. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

### **Overview**

The Company is an active participant in the development and production of currency inventory management and control systems for financial institutions, retailers, currency carriers, casino and mass transit operators, and various government agencies. Many of these customers are distributors and in turn offer our services to their clients.

The Company’s strategic direction has been to enhance its position as a supplier of efficient solutions. Part and parcel of this strategy has been to invest in its existing business, continue to introduce new products, research opportunities in new industry sectors and complete strategic alliances, to extend the technological and market reach of the Company. To achieve the objectives of these strategies it is critical that alliances reached with larger participants, whom are effectively our distributors, are actively productive.

The Company’s software products have demonstrated their value in use to the licensees of the products. However, as software continues to evolve, software products are increasingly sold as a hosted service rather than as customer licenses. This evolution, which began gaining traction approximately five years ago, is generally referred to as “cloud” computing services or software as a service (“SaaS”).

The Company's hallmark Currency Controller product is comprised of multiple functions that are separable into discrete software offerings. The Company has found a market for the cloud offering of individual components of the Currency Controller system, as well as for the complete system. Over the past four years, NamSys has adapted its software to be available through this medium. These SaaS products are branded and trademarked as "Cirreon".

## Quarterly Financial Data

The table below presents selected financial data of the Company for each of the eight fiscal quarters ended July 31, 2018:

	Fiscal quarter end							
	Jul. 31 2018	Apr. 30 2018	Jan. 31 2018	Oct. 31 2017	Jul. 31 2017	Apr. 30 2017	Jan. 31 2017	Oct. 31 2016
	(in thousands of dollars)							
Revenue	839	808	742	709	754	752	691	632
Gross profit	580	566	514	469	557	518	505	434
Income before tax*	407	406	285	279	305	387	289	245
Comprehensive income per share:								
Basic	0.011	0.013	0.008	0.007	0.008	0.010	0.008	0.007
Diluted	0.011	0.013	0.008	0.007	0.008	0.010	0.008	0.007

\*The Company has chosen to compare year over year income before taxes because the Company only became taxable in the third quarter of 2016, due to losses in previous years. In fiscal years 2014 and 2015, with the concurrence of the Company's auditors, the tax loss carry forwards were assigned an estimated value and capitalized in the Company's accounts. Comprehensive Income reflects the taxes which would have been payable had the Company been fully taxable. The tax amount for each period is in turn charged against the capitalized tax asset. Prior to the capitalization of such losses, the accounting protocol assumed no taxes were payable. For comparison purposes, therefore, income before taxes is the appropriate metric.

The sales cycle for the Company's licensable products tends to be protracted and the unit selling prices of licenses are relatively high. These factors together with a relatively low number of licensing transactions historically lead to revenue fluctuations quarter to quarter and year to year. The SaaS offering of these products is now changing these dynamics. Customer feedback continues to be positive, and with the global economy showing signs of recovery, the Company believes the proven value of its Currency Controller and SaaS products, as described above, will be realized through fulfillment of customer demand in 2018 and beyond.

## Results of Operations

### ***Three months ended July 31, 2018 compared to Three months ended July 31, 2017***

#### ***Revenue***

	2018	2017	Change	Change %
	\$	\$	\$	
Hosted services, maintenance and product support	698,681	646,992	51,689	8.0%
Licences	96,663	96,674	(11)	0.0%
Professional services	43,716	10,125	33,591	331.8%
	839,060	753,791	85,269	11.3%

Revenues in the three months ended July 31, 2018, increased in comparison to the same period in the prior year. The Company's total sales for the three months ended July 31, 2018, were \$839,060 as compared to \$753,791 for the corresponding period in 2017, an increase of \$85,269 or 11.3%. As the Company continues to expand upon the "software-as-a-service" model, the sales cycle is shortening and the service is paid monthly.

The Company generates software revenue from Cirreon hosted services and from the sale of license agreements to use its software products, upgrading existing license holder's systems, training, consulting and from recurring revenues for maintenance and product support. The majority of the Company's licensed systems customers renew their product support agreements annually, in order to stay current with new features and developments. A small number of Cirreon license agreements have been granted to distributors where the product has been customized to meet the needs of the distributor's clients. Such licenses are for definitive periods and are for defined usage with normal "SaaS" monthly fees.

Recurring revenue, including maintenance, product support and hosted services (SaaS) revenue for the three months ended July 31, 2018 represented \$698,681 of the total revenue compared to \$646,992 for the corresponding three months the previous year, an increase of \$51,689 or 8.0%. Recurring revenue represented 83.3% of total sales revenue in the three months ended July 31, 2018, as compared to 85.8% in the same three months of fiscal 2017.

Currency Controller license fees for the three months ended July 31, 2018, were \$91,727 compared to \$91,517 for the 2017 comparative period. Cirreon license fees for the three months ended July 31, 2018, were \$4,936 compared to \$5,157 for the 2017 comparative period.

In the third quarter of 2018, revenue related to upgrading existing systems of \$43,716 represents an increase of \$33,591 compared to \$10,125 from the corresponding period in 2017. Consulting revenue in the third quarter of 2018 was \$nil compared to \$nil in the third quarter of 2017.

## **Cost of Goods Sold and Gross Profit**

*Three months ended July 31, 2018 compared to Three months ended July 31, 2017*

Historically, the sales mix between software license fees, hosted products and other services impact the Company's Gross Profit in any given reporting period. Gross Profit can also be affected by changes in the exchange rate between Canadian and U.S. dollars, given that U.S. sales represent more than 90% of total sales.

Cost of goods sold for the three months ended July 31, 2018, was \$259,257 compared to \$197,106 in the corresponding period in 2017. The overall Gross Profit achieved in the third quarter of 2018 was \$579,803 or 69.1%, compared to Gross Profit for the corresponding period in 2017 of \$556,685 or 73.9%, a decrease in Gross Margin percentage of 4.8 percentage points.

## **Selling Expenses**

*Three months ended July 31, 2018 compared to Three months ended July 31, 2017*

Selling expenses are comprised of direct selling and marketing expenses and the salaries of employees whose principal function is sales and marketing. Selling expenses for the three months ended July 31, 2018, totaled \$57,500, an increase of \$3,420 or 6.3% from \$54,080 in the corresponding period of 2017. This increase is mostly because of higher trade show attendance costs in the current quarter. Selling expense was 6.9% of revenue in the third quarter of 2018 as compared to 7.2% in the 2017 same quarter, recognizing that revenues in the 2018 period were up \$85,269 or 11.3% from the 2017 comparative period.

## **General and Administration Expenses**

*Three months ended July 31, 2018 compared to Three months ended July 31, 2017*

General and administration ("G&A") expense consists primarily of salaries, benefits and overhead expenses, corporate maintenance charges, occupancy, professional fees and travel.

G&A expense totaled \$130,921 in the three months ended July 31, 2018 as compared to \$121,258 in the 2017 comparative period, an increase of \$9,663 or 8.0%.

Various G&A costs increased, in aggregate, period-over-period resulting in the total expense in the quarter ended July 31, 2018, being higher by \$9,663 versus the comparative quarter.

Depreciation for the three months ended July 31, 2018, of \$1,135 increased by \$363 or 47.1% from \$772 in the same period of 2017. The level of amortization is a result of the Company incurring only minor expenditures for intellectual assets and property and equipment over the last several years.

With the increase in sales, as noted above, and the increase in G&A expenses, the G&A expense ratio as compared to revenue was 15.6% in the third quarter of 2018 as compared to 16.1% in the 2017 third quarter.

## ***Financing and Other Costs***

Other than trade and other payables, and income taxes payable, the Company has no debt outstanding and incurred no interest expense in respect of outstanding debt in the current or comparative period.

## ***Gain (loss) on foreign exchange***

The Company recognized a gain on foreign exchange of \$15,804 in the third quarter of 2018, whereas a loss of \$76,702 was experienced in the comparative quarter of 2017. This results in an increase in income of \$92,506 in 2018 as compared to the 2017 same period. The gain on foreign exchange recognized in the quarter ended July 31, 2018, is a result of both the large number of clients that are domiciled in the USA, which are invoiced for services in US dollars, along with the depreciation in the Canadian dollar vis-à-vis the US dollar occurring during the quarter. The Company invoices its foreign customers in US dollars and recognizes a foreign exchange gain (loss) when the Canadian dollar amount of the receivable at period end, or the amount received in the period, is greater (less) than at the time of invoicing.

## ***Provision for Income Taxes***

The basic rate of 26.50% was applied to the pre-tax income in the 2018 third quarter (2017 – 26.50%), resulting in a deferred income tax expense of \$110,000 (2017 - \$47,000 expense) and current income tax expense of \$nil (2017 – \$33,238). In the quarter ended April 30, 2018, the Company reassessed its balance of available investment tax credits and recognized the benefit of a previously unrecorded credit of \$82,642.

The Company has losses of approximately \$488,000 from prior periods available for carry forward to reduce future years' income for tax purposes. These losses will expire between 2032 and 2035, if not used, and are recognized in the Deferred Tax asset on the Company's Balance Sheet.

As a result of recognizing a deferred income tax expense of \$74,000 in the first quarter, a deferred income tax recovery of \$16,000 in the second quarter and a deferred income tax expense of \$110,000 in the third quarter of 2018, at July 31, 2018, the Company had tax assets totaling \$133,000 (October 31, 2017 – \$301,000). The amount of the deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty. Prior to fiscal 2014, management concluded that estimates of future taxable income did not meet the probability requirement to recognize any deferred tax assets given the liquidity risks that created a going concern uncertainty. The repayment of the Company's debenture in fiscal 2014 and reduction in the secured debt to \$nil in fiscal 2015 has eliminated interest expense going forward. The Company has also generated net taxable income in seven of the last eight years. These facts, along with management's expectations regarding future profitability have all factored into the estimate of deferred tax assets that are probable of recovery.

## ***Comprehensive Income and Income Per Share***

As a result of the factors discussed above, the comprehensive income after tax for the three months ended July 31, 2018 was \$297,186 as compared to income of \$224,407 in the three months ended July 31, 2017.

Three months ended July 31,

	2018	2017
	\$	\$
Comprehensive income	297,186	224,407
Income per share:		
Basic	0.01	0.01
Diluted	0.01	0.01

For the three months ended July 31, 2018, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2017 – 27,286,332).

***Nine months ended July 31, 2018 compared to Nine months ended July 31, 2017***

***Revenue***

	2018	2017	Change	Change %
	\$	\$	\$	
Hosted services, maintenance and product support	2,007,585	1,769,760	237,825	13.4%
Licences	315,523	320,204	(4,681)	-1.5%
Professional services	66,745	107,046	(40,301)	-37.6%
	2,389,853	2,197,010	192,843	8.8%

Revenues in the nine months ended July 31, 2018, increased in comparison to the same period in the prior year. The Company's total sales for the nine months ended July 31, 2018, were \$2,389,853 as compared to \$2,197,010 for the corresponding period in 2017, an increase of \$192,843 or 8.8%. As the Company continues to expand upon the "software-as-a-service" model, the sales cycle is shortening and the service is paid monthly.

The Company generates software revenue from Cirreon hosted services and from the sale of license agreements to use its software products, upgrading existing license holder's systems, training, consulting and from recurring revenues for maintenance and product support. The majority of the Company's licensed systems customers renew their product support agreements annually, in order to stay current with new features and developments. A small number of Cirreon license agreements have been granted to distributors where the product has been customized to meet the needs of the distributor's clients. Such licenses are for definitive periods and are for defined usage with normal "SaaS" monthly fees.

Recurring revenue, including maintenance, product support and hosted services (SaaS) revenue for the nine months ended July 31, 2018 represented \$2,007,585 of the total revenue compared to \$1,769,760 for the corresponding nine months the previous year, an increase of \$237,825 or 13.4%. Recurring revenue represented 84.0% of total sales revenue in the nine months ended July 31, 2018, as compared to 80.6% in the same nine months of fiscal 2017.

Currency Controller license fees for the nine months ended July 31, 2018, were \$300,567 compared to \$304,665 for the 2017 comparative period. Cirreon license fees for the nine months ended July 31, 2018, were \$14,956 compared to \$15,539 for the 2017 comparative period.

In the first three-quarters of 2018, revenue related to upgrading existing systems of \$66,745 represents a decrease of \$40,301 compared to \$107,046 from the corresponding period in 2017. Consulting revenue in the first three-quarters of 2018 was \$nil compared to \$nil in the first three-quarters of 2017.

### **Cost of Goods Sold and Gross Profit**

#### *Nine months ended July 31, 2018 compared to Nine months ended July 31, 2017*

Historically, the sales mix between software license fees, hosted products and royalties impact the Company's Gross Profit in any given reporting period. Gross Profit can also be affected by changes in the exchange rate between Canadian and U.S. dollars, given that U.S. sales represent more than 90% of total sales.

Cost of goods sold for the nine months ended July 31, 2018, was \$730,212 compared to \$617,132 in the corresponding period in 2017. The overall Gross Profit achieved in the first three-quarters of 2018 was \$1,659,641 or 69.4%, compared to Gross Profit for the corresponding period in 2017 of \$1,579,878 or 71.9%, a decrease in Gross Margin percentage of 2.5 percentage points.

### **Selling Expenses**

#### *Nine months ended July 31, 2018 compared to Nine months ended July 31, 2017*

Selling expenses are comprised of direct selling and marketing expenses and the salaries of employees whose principal function is sales and marketing. Selling expenses for the nine months ended July 31, 2018, totaled \$154,550, an increase of \$1,525 or 1.0% from \$153,025 in the corresponding period of 2017. Selling expense was 6.5% of revenue in the first three-quarters of 2018 as compared to 7.0% in the 2017 same three-quarters, recognizing that revenues in the 2018 period were up \$192,843 or 8.8% from the 2017 comparative period.

### **General and Administration Expenses**

#### *Nine months ended July 31, 2018 compared to Nine months ended July 31, 2017*

General and administration ("G&A") expense consists primarily of salaries, benefits and overhead expenses, corporate maintenance charges, occupancy, professional fees and travel.

G&A expense totaled \$410,608 in the nine months ended July 31, 2018 as compared to \$368,191 in the 2017 comparative period, an increase of \$42,417 or 11.5%.

The Company only began incurring quarterly management fees of \$15,000 in the second quarter of 2017. Along with an increase in compensation costs for the corporate directors of \$5,069 in the first nine months of 2018, total management expenses increased by \$20,069 in the current three-quarters versus the comparative period. Various other G&A expenses, in aggregate, increased period-over-period by \$22,348.

Depreciation for the nine months ended July 31, 2018, of \$3,364 increased by \$1,091 or 48.0% from \$2,273 in the same period of 2017. The level of amortization is a result of the

Company incurring only minor expenditures for intellectual assets and property and equipment over the last several years.

With the increase in sales, as noted above, and the increase in G&A expenses, the G&A expense ratio as compared to revenue was 17.2% in the first three-quarters of 2018 as compared to 16.8% in the 2017 first three-quarters.

### ***Financing and Other Costs***

Other than trade and other payables, and income taxes payable, the Company has no debt outstanding and incurred no interest expense in respect of outstanding debt in the current or comparative period.

### ***Gain (loss) on foreign exchange***

The Company recognized a gain on foreign exchange of \$4,429 in the first three-quarters of 2018, whereas a loss of \$78,066 was experienced in the comparative three-quarters of 2017. This results in an increase in income of \$82,495 in 2018 as compared to the 2017 same period. The gain on foreign exchange recognized in the nine months ended July 31, 2018, is a result of both the large number of clients that are domiciled in the USA, which are invoiced for services in US dollars, along with the depreciation in the Canadian dollar vis-à-vis the US dollar occurring during the three-quarters. The Company invoices its foreign customers in US dollars and recognizes a foreign exchange gain (loss) when the Canadian dollar amount of the receivable at period end, or the amount received in the period, is greater (less) than at the time of invoicing.

### ***Provision for Income Taxes***

The basic rate of 26.50% was applied to the pre-tax income in the 2018 first three-quarters (2016 – 26.50%), resulting in a deferred income tax expense of \$168,000 (2017 - \$142,000) and current income tax expense of \$63,359 (2017 – \$117,559).

The Company has losses of approximately \$488,000 from prior periods available for carry forward to reduce future years' income for tax purposes. These losses will expire between 2031 and 2035, if not used, and are recognized in the Deferred Tax asset on the Company's Balance Sheet.

As a result of recognizing deferred income tax expense of \$168,000 in the first three-quarters of 2018, at July 31, 2018, the Company had tax assets totaling \$133,000 (October 31, 2017 – \$301,000). The amount of the deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty. Prior to fiscal 2014, management concluded that estimates of future taxable income did not meet the probability requirement to recognize any deferred tax assets given the liquidity risks that created a going concern uncertainty. The repayment of the Company's debenture in fiscal 2014 and reduction in the secured debt to \$nil in fiscal 2015 has eliminated interest expense going forward. The Company has also generated net taxable income in seven of the last eight years. These facts, along with management's expectations regarding future profitability have all factored into the estimate of deferred tax assets that are probable of recovery.

## **Related Party Transactions**

The following summarizes the Company's related party transactions:

- a) Rent and administration expenses in the amount of \$34,200 (2017 - \$31,800) and management fees of \$45,000 (2017 - \$30,000) were incurred in the nine months ended July 31, 2018, from a company that is partially owned by the CEO of the Company. In addition, consulting expenses for sales and marketing in the amount of \$33,750 were incurred in the nine months ended July 31, 2018 (2017 - \$33,750) from a company that is controlled by the Founder of NamSys.
- b) Included in trade and other payables at July 31, 2018, are amounts due to directors of \$15,000 (October 31, 2017 – \$nil). The related party amounts included in trade and other payables are unsecured and non-interest bearing.

## **Comprehensive Income and Income Per Share**

As a result of the factors discussed above, the comprehensive income after tax for the nine months ended July 31, 2018 was \$570,367 as compared to income of \$496,630 in the nine months ended July 31, 2017.

Nine months ended July 31,

	2018	2017
	\$	\$
Comprehensive income	867,553	721,037
Income per share:		
Basic	0.03	0.03
Diluted	0.03	0.03

For the nine months ended July 31, 2018, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2017 – 27,286,332).

## **Liquidity and Capital Resources**

### **General**

During the most recent five year period ended October 31, 2017, the Company funded all capital expenditures, operations and debt reduction from a combination of cash flow from operations, the sale of preferred shares, and the renegotiation of its secured debt and debenture.

Notwithstanding Management's strong belief that the trends in the marketplace with respect to the Company's products are positive and improving, there can be no assurance that third party funding will be available in the future on terms acceptable to the Company.

### **Cash Flow from Operations**

The Company had working capital of \$2,990,866 at July 31, 2018, compared to working capital of \$1,870,493 at October 31, 2017. Excluded from the July 31, 2018, working capital

calculations are: prepaid expenses of \$98,889 (October 31, 2017 – \$55,250); and deferred revenue of \$351,781 (October 31, 2017 – \$219,201).

For the nine months ended July 31, 2018, the Company had cash flow from operations of \$819,707 as compared to cash flow from operations of \$777,139 in the nine months ended July 31, 2017. The increase in cash flow from operations is primarily from the higher achievement of profitable results, net of the change in deferred revenue, in the first three-quarters of 2018 versus the 2017 period.

## **BALANCE SHEET**

### ***Trade and Other Receivables***

At July 31, 2018, the company had trade and other receivables of \$675,239 (October 31, 2017 - \$438,942). The amount of receivables over 90 days past due, at July 31, 2018, is \$195,652, of which over \$192,000 was subsequently collected. As such, the Company believes no provision for doubtful accounts is required at this time.

### ***Plant and Equipment***

Plant and equipment are recorded at cost less accumulated amortization and are amortized over their estimated useful lives as follows:

Office equipment	20% declining balance
Leasehold improvements	5 years straight-line

Plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recovered. An impairment loss is measured as the amount by which the carrying value of the long-lived asset exceeds its recoverable amount.

### ***Deferred Income Tax Asset***

In the nine months ended July 31, 2018, the Company recognized a deferred income tax expense of \$168,000 and, as a result, at July 31, 2018, the Company had tax assets totaling \$133,000 (October 31, 2017 – \$301,000). The amount of deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty. Prior to 2014, management concluded that projection of future taxable income did not meet the probability requirement to recognize any deferred tax assets given the liquidity risks that created a going concern uncertainty. The repayment of the Company's debenture, along with much improved financial performance, resulted in a change to this estimate in 2015. The key assumption in the estimate is the amount of future taxable income that management has concluded is probable to occur.

### ***Financing Agreements***

Other than trade and other payables, the Company has no debt outstanding.

### ***Contractual Obligations***

A summary of the Company's contractual obligations, at July 31, 2018:

	Total	Less than 1 year	1 to 5 years
	\$	\$	\$
Trade and other payables	212,193	212,193	-
Income taxes payable	-	-	-
Premises lease	29,280	29,280	-
	241,473	241,473	-

### ***Capital Expenditures***

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology, property, plant and equipment purchases and capital investments into intellectual property. During the first three-quarters of 2018, capital expenditures were \$7,485 as compared to \$6,086 in the first three-quarters of 2017.

### **Summary of Significant Accounting Policy Choices or Changes under IFRS**

The Company's significant accounting policies have been disclosed in Note 2 of the financial statements.

#### ***Foreign currency translation***

The Company has continued to use Canadian dollars as the Company's presentation currency. IFRS requires the assessment of functional currency for the parent and each subsidiary. The functional currency for the Company was determined to be Canadian Dollars.

#### ***Plant and equipment***

The Company has elected to continue to use an historic cost model in reporting its plant and equipment.

Management has concluded that there was no impairment in the current and comparative period.

#### ***Income taxes***

Income tax expense is recognized in net income (loss) except to the extent that it relates to a business combination, or items recognized directly in equity. Income taxes are calculated using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax losses and other deductions carried forward.

Deferred income tax assets and liabilities are calculated using substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. An asset is recognized on the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. The effect on deferred tax assets and liabilities of changes in tax rates are recognized in net income (loss) in the period in which the change is substantively enacted.

### **Adoption of Accounting Standards**

During the period, the Company did not adopt any new accounting standards.

### **Recent Accounting Pronouncements**

Certain new standards and pronouncements were issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning on or after July 31, 2018. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the table below. The following pronouncements and standards have not yet been adopted and are being evaluated to determine the resultant impact on the Company:

#### **IFRS 9 – Financial Instruments**

During 2014, the IASB issued the complete version of IFRS 9. Under the finalized guidance, IFRS 9 specifies that financial assets be classified into one of three categories: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss or financial assets measured at fair value through other comprehensive income. IFRS 9 introduces changes to measuring an entity’s own credit risk in the valuation of financial liabilities. The final standard also introduces a new “expected credit loss” model for calculating impairment, and new general hedge accounting requirements that align more closely with an entity’s risk management model. IFRS 9 will be mandatorily effective for the Company’s fiscal year beginning on November 1, 2018, and early adoption is permitted. At this time, given the Company’s financial instruments are not complex, the Company does not anticipate any significant changes with respect to the accounting for its financial instruments under IFRS 9.

#### **IFRS 15 – Revenue from Contracts with Customers**

During 2014, the IASB established principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The standard provides a single, principles based model for revenue recognition to be applied to all contracts with customers. IFRS 15 will be effective for the Company’s fiscal year beginning November 1, 2018, with earlier adoption permitted. As the majority of the Company’s revenue is earned on a monthly subscription basis, the Company does not anticipate any significant changes to its revenue recognition under the new standard.

#### **IFRS 16 – Leases**

In 2016, the IASB issued its new leasing standard. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as previously required by IAS 17. Instead, it introduces a single lease accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and to depreciate the lease assets separately from interest on the lease liabilities on

the income statement. IFRS 16 will be effective for the Company's fiscal year beginning November 1, 2019, with earlier adoption permitted if the entity also adopts IFRS15. At the present time, the Company's premises lease is its only operating lease. The accounting for this lease will be impacted by the new standard.

The Company continues to monitor IASB ongoing activity and proposed changes to IFRS. Several accounting standards that are in the process of being amended by the IASB (i.e. leases and conceptual framework and annual updates) which may have an impact on the Company's future financial statements.

## **Additional Information**

Additional information relating to the Company including the interim and annual financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Outstanding Share Data**

Summary of securities issued and outstanding as at July 31, 2018

<u>Class</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
Common	Unlimited	27,286,332

No common shares are reserved for issuance with respect to Options granted under the Company's stock option plan as at July 31, 2018.

## **Employee Long Term Bonus Plan**

On June 29, 2015, both the Directors of the Cencotech and NamSys passed concurrent resolutions establishing Employee Long Term Bonus Plans (the "Plans"). The purpose of the Plans is to compensate and reward employees and officers, as determined at the sole discretion of the Directors, upon the occurrence of one of the following events:

- i) all or substantially all of the assets of NamSys are sold, or otherwise transferred, to an arm's length third party; or
- ii) all or substantially all of the common shares of NamSys, held by Cencotech, are sold, or otherwise transferred, to an arm's length third party; or
- iii) more than 50% of the common shares of Cencotech are sold, or otherwise transferred, to an arm's length party.

On the occurrence of one of the above noted change of control events, Cencotech or NamSys will cause an aggregate of 15% of the transaction consideration to be payable to the employees and officers, as determined by the Directors, at that time. As of the balance sheet date of July 31, 2018, the Company does not envision a change of control event occurring within the foreseeable future.

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting for the issuer. They are assisted in this responsibility by the Management team. The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures and the design of internal controls at July 31, 2018, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company would have been known to them. Through the evaluation of the design of its internal controls the Company has identified an internal control weakness in the financial reporting process, specifically a lack of segregation of duties in the accounting process. This situation is common to many small companies. In order to mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight, and interim and annual financial statements are reviewed by the Company's board. While the deficiency in segregation of duties could lead to a material misstatement in the financial statements, management believes that its supervisory and review controls are sufficient to prevent a material misstatement from occurring.

## **Critical Accounting Estimates**

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The areas that management makes critical estimates, assumptions and judgments are useful lives and impairment of plant and equipment, probable future taxable income, probable change in control event occurring, recoverability of deferred income tax assets, and functional currency of the Company. Actual results could differ from those estimates.

## **Investor Relations**

Personnel employed directly by the Company handle all investor relations. The duties include news releases, investor communications and general day to day operations of this department.

## **Legal Proceedings**

There are no outstanding legal proceedings.

## **Environmental Issues**

Given the nature of the Company's business, there are no material environmental issues.

## **Risk Factors**

### ***Dependence on Management***

The Company's success is dependent on its founders, directors and management team. The loss of the services of key personnel could make it more difficult to successfully operate the Company's business and pursue its business goals.

### ***Seasonality and Inflation***

Sales of the Company's products are generally not seasonal. Inflation, in recent years, has not adversely affected the Company's results of operations and unless inflation increases substantially is not expected to adversely affect the Company in the future.

### ***Market Risks***

Market risks represent the risk of loss that may impact the financial statements of the Company due to adverse changes in financial market prices and rates. The Company's market risk is primarily the result of fluctuations in interest rates and in foreign currency values, particularly the United States dollar. Management monitors the movement in interest rates and currency exchange rates and, on that basis, decides on the appropriate measures to take. Interest rates and exchange rates at the present time are such that no measures are being taken at this time.

The Company does not hold or issue financial instruments for trading purposes.

### ***Market Condition Risks***

The Company's products are sold to large participants in the currency management marketplace including banks, currency providers, retail service providers and in turn their retail clients. While these participants are interested in improving their efficiency in managing and handling currency, economic uncertainty could cause them to restrict capital budgets required to bring this efficiency to their operations. Further, the merger and acquisition activity in the financial services sector at the present time creates both an opportunity and risk for suppliers to the industry. When two banks merge, the continuing entity usually selects one technology provider for a given function. Our experience in the past would suggest that the provider with the largest installed base in the combined entity will replace the provider with the smaller installed base, predicated upon a smaller cost of conversion rather than ultimate efficiency of one service versus another. The good news, however, is that currency management and handling systems are absolutely required by the surviving entity.

While retailers may not be prepared to make capital acquisitions of sophisticated cash and coin handling systems, the major currency providers and carriers have for the last few years been transitioning their business to the provision of a complete turnkey service as opposed to merely transporting currency to and from retail establishments. Our "SaaS" Cirreon technology for this market is leading edge and has been adopted by the largest of these currency transport and providers.

### ***Financing Risk***

There is limited risk associated with the Company's ability to secure additional financing.

### ***Competition Risk***

The Company's business is in a competitive market and it competes with companies that have greater resources, experience and market stature. However, our products are considered by the marketplace to be "state-of-the-art" and the stature of our distributor marketing partners mitigate the competitive risk.

### ***Product Performance and Availability Risk***

The Company's products are tested extensively and must meet certain quality assurance tests prior to delivery to customers. However, many of the products sold to the market utilize subassemblies produced by other manufacturers. Product failures or lack of availability can result in a number of risks to the business including: market reputational risks and warranty/cost of goods expense risks.

### **Market for Securities**

The common shares of the Company are listed and posted for trading on the TSX Venture Exchange under the trading symbol "CTZ".

Toronto, Ontario  
September 24, 2018