

NamSys Inc.

Financial Statements
Expressed in Canadian Dollars
For the years ended October 31, 2017 and 2016



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of NamSys Inc.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

A handwritten signature in black ink that reads "Flabbi & Associates LLP".

Chartered Professional Accountants, Licensed Public Accountants

January 29, 2018
Toronto, Ontario

NamSys Inc.

BALANCE SHEETS

As at October 31, (Expressed in Canadian dollars)	2017	2016
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash	1,715,598	627,823
Trade and other receivables (Note 3)	438,942	348,416
Prepaid expenses	55,250	31,142
	<u>2,209,790</u>	<u>1,007,381</u>
PLANT AND EQUIPMENT (Note 4)	22,049	12,183
DEFERRED INCOME TAXES (Note 10)	301,000	525,000
	<u>2,532,839</u>	<u>1,544,564</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables (Notes 5 and 9)	224,441	256,500
Income taxes payable (Note 10)	59,606	55,000
Deferred revenue	219,201	127,856
	<u>503,248</u>	<u>439,356</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	5,627,519	5,627,519
Deficit	(3,597,928)	(4,522,311)
	<u>2,029,591</u>	<u>1,105,208</u>
	<u>2,532,839</u>	<u>1,544,564</u>
Commitments (Note 14)		

Approved on behalf of the Board:

K. Barry Sparks (signed), Director

Joe Prodan (signed), Director

NamSys Inc.

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended October 31, (Expressed in Canadian dollars)	2017	2016
	\$	\$
REVENUE (Note 8)	2,905,555	2,399,891
COST OF SALES (Note 15)	856,271	673,891
GROSS PROFIT	2,049,284	1,726,000
EXPENSES		
Selling (Notes 9 and 15)	220,889	202,172
General and administration (Notes 4, 9, 14 and 15)	507,991	438,429
	728,880	640,601
OPERATING INCOME	1,320,404	1,085,399
Other income (expenses)		
Gain (loss) on foreign exchange	(60,360)	20,543
INCOME BEFORE INCOME TAXES	1,260,044	1,105,942
INCOME TAX EXPENSE (Note 10)		
Deferred taxes	(224,000)	(224,000)
Current taxes	(111,661)	(55,000)
	(335,661)	(279,000)
NET INCOME AND COMPREHENSIVE INCOME	924,383	826,942
NET INCOME AND COMPREHENSIVE INCOME		
Owners of the Company	924,383	782,942
Non-controlling interest (Note 7)	-	44,000
	924,383	826,942
BASIC AND DILUTED INCOME PER SHARE ATTRIBUTED TO OWNERS OF THE COMPANY (Note 11)	0.03	0.03

NamSys Inc.

STATEMENTS OF CHANGES IN EQUITY

	Share Capital Number of Shares	Share Capital \$	Deficit \$	Equity Attributable to Owners of the Company \$	Equity Attributable to Non- Controlling Interests \$	Total \$
(Expressed in Canadian dollars)						
Balance as at October 31, 2015	27,286,332	5,627,519	(5,284,453)	343,066	779,200	1,122,266
Comprehensive income for the period	-	-	782,942	782,942	44,000	826,942
Dividends on First Preference, Series V Shares by subsidiary (Note 7)	-	-	-	-	(44,000)	(44,000)
Redemption of First Preference, Series V Shares by subsidiary (Note 7)	-	-	-	-	(800,000)	(800,000)
Premium on redemption of share capital (Note 7)	-	-	(20,800)	(20,800)	20,800	-
Balance as at October 31, 2016	27,286,332	5,627,519	(4,522,311)	1,105,208	-	1,105,208
Balance as at October 31, 2016	27,286,332	5,627,519	(4,522,311)	1,105,208	-	1,105,208
Comprehensive income for the period	-	-	924,383	924,383	-	924,383
Balance as at October 31, 2017	27,286,332	5,627,519	(3,597,928)	2,029,591	-	2,029,591

NamSys Inc.

STATEMENTS OF CASH FLOWS

For the year ended October 31, (Expressed in Canadian dollars)	2017	2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive income	924,383	826,942
Non-cash items:		
Depreciation (Notes 4)	3,280	2,443
Deferred income tax expense (Note 10)	224,000	224,000
	<u>1,151,663</u>	<u>1,053,385</u>
Changes in:		
Trade and other receivables (Note 3)	(90,526)	(110,833)
Prepaid expenses	(24,108)	3,965
Trade and other payables (Notes 5 and 9)	(32,059)	128,317
Income taxes payable (Note 10)	4,606	55,000
Deferred revenue	91,345	(7,850)
	<u>1,100,921</u>	<u>1,121,984</u>
INVESTING ACTIVITIES		
Purchase of plant and equipment (Note 4)	(13,146)	(4,827)
FINANCING ACTIVITIES		
Dividends paid on First Preference, Series V Shares by subsidiary (Note 7)	-	(44,000)
Redemption of First Preference, Series V Shares by subsidiary (Note 7)	-	(800,000)
	-	<u>(844,000)</u>
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	1,087,775	273,157
CASH, beginning of period	627,823	354,666
CASH, end of period	1,715,598	627,823
Supplemental cash flow information:		
Interest paid	-	-

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Cencotech Inc. ("Cencotech") was formed under the provisions of the Business Corporations Act of Alberta on January 29, 1997 and continued under the provisions of the Business Corporations Act of Ontario on October 31, 1999. On November 1, 2016, Cencotech amalgamated with its wholly owned subsidiary, NamSys Inc. ("NamSys"), and continued to operate under the name NamSys Inc. ("The Company").

The Company was formed to acquire and manage emerging high technology enterprises with sound business solutions for their customers. NamSys now exclusively offers software solutions for currency management and processing for the banking and merchant industries principally in North America.

The Company is domiciled in Canada and the address of the Company's registered office is 141 Adelaide Street West, Suite 1600, Toronto, Ontario, M5H 3L5. The Company is listed on the TSX Venture Exchange under the symbol "CTZ".

These financial statements for the year ended October 31, 2017 (including comparatives) were approved and authorized for issue by the board of directors on January 29, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

Basis of presentation and measurement

The financial statements have been prepared on the accrual basis using the historic cost basis of accounting, unless otherwise indicated, and are presented in Canadian dollars, which is the Company's functional currency. All amounts are rounded to the nearest dollar, other than income per share disclosures.

As described above in Note 1, Cencotech and NamSys amalgamated on November 1, 2016. The amalgamation has been accounted for using the continuity of interests method. Accordingly, financial information as at October 31, 2016 and for the year ended October 31, 2016 was derived from the previous consolidated financial statements of Cencotech. The statements represent the companies activates as if the amalgamation had occurred November 1, 2015.

Foreign currencies

Foreign currency transactions are translated into the Company's functional currency at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the reporting date rates of exchange, and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses are translated at the average exchange rates in the month they occur, except for revenues and expenses from non-monetary assets, which are translated using the same rates as the related assets. Translation gains and losses are recorded in net income (loss).

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. It is reasonably possible that, on the basis of existing knowledge, outcomes in the next financial year that are different from the assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

The accompanying financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation.

Estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information regarding areas of estimation uncertainty made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 3 – determination of the allowance for doubtful accounts
- Note 4 – estimated useful life and residual value of plant and equipment
- Note 10 – determination of probable future taxable income
- Note 16 – determination of probable change in control event occurring

Significant judgments

Judgments are reviewed on an ongoing basis. Changes resulting from the effects of amended judgments are recognized in the period in which the change occurs and in any future periods presented.

Information regarding significant areas of critical judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 2 – functional currency of the company and its subsidiary
- Note 10 – recoverability of deferred tax assets

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

All financial instruments are classified into one of the following five categories: fair value through profit and loss ("FVTPL") assets or liabilities, held-to-maturity ("HTM") investments, loans and receivables, available-for-sale ("AFS") financial assets or other financial liabilities. FVTPL financial instruments are measured at fair value and all resultant gains and losses are included in income in the period in which they arise. AFS financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the instruments are derecognized or impaired. When AFS financial instruments are derecognized the cumulative gain or loss previously recognized directly in equity is recognized in income (loss). Loans and receivables, HTM investments and other financial liabilities are initially measured at fair value and then subsequently measured at amortized cost using the effective interest method.

The Company has made the following classifications:

Cash	FVTPL
Trade and other receivables	Loans and receivables
Trade and other payables	Other financial liabilities

Transaction costs are expensed as incurred for financial instruments classified as FVTPL. For other financial instruments, transaction costs are included in the initial carrying amount of the financial instrument.

Fair value hierarchy

Financial instrument fair values are classified in a hierarchy comprising three levels reflecting the observability of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Cash is classified as Level 1.

Impairment of financial assets

A financial asset not carried at FVTPL and an AFS financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The amount of the loss that is recognized in income is the difference between the carrying value and current fair value.

Cash

Cash consists of bank balances which are deposited at chartered banks. These balances maintained at chartered banks may exceed federally insured amounts.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment

Plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset, and bringing the asset to the location and condition necessary for its use in operations.

Depreciation of the cost to the estimated residual value is calculated over the estimated useful lives of the asset as follows:

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

Impairment of non-financial assets

At each reporting date, the Company's plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired.

To determine whether a non-financial asset may be impaired, the recoverable amount is compared to the carrying value of the asset. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units ("CGUs") for impairment purposes. A CGU represents the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down and the impairment loss is recognized in the statements of net income (loss).

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of net income (loss).

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Share issuance costs

Professional, consulting, regulatory fees and other costs that are directly attributable to the issuance of shares are charged to share capital when the related shares are issued, net of any tax effects.

Revenue recognition and deferred revenue

Software license fees for perpetual licenses are recognized when: the products and services to be provided are contained in a contractual agreement signed by the customer; delivery of the software has occurred; all significant vendor obligations have been completed; fees are fixed and determinable; and collectibility of fees is reasonably assured. Software license fees for term licenses are recognized on a straight-line basis over the license term.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Systems maintenance fees relate to a defined period of time and are paid in advance. Deferred revenue is comprised of systems maintenance fees for which services have not yet been provided. Maintenance contract revenue is recognized on a straight line basis over the term of the contract. Associated costs are recognized as incurred.

Non-licensed software revenue, such as arrangements containing hosted services where the customer does not take possession of the software and has no contractual right to do so, is recognized when: persuasive evidence of an arrangement exists; services have been rendered; the fees are fixed or determinable; and collectibility is reasonably assured. These services are generally contracted on a subscription or usage basis per month and recognized monthly.

Research and software development costs

Research costs are charged to net income in the period in which they are incurred. Software development costs are charged to net income in the period they are incurred, unless they meet specific capitalization criteria related to technical, market and financial feasibility.

Income taxes

Income tax expense is comprised of current and deferred tax expense. Current tax expense is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Income tax expense is recognized in net income 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 in the period in which the change is substantively enacted.

Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net income attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments and Employee Long-Term Bonus Plan

Compensation expense for share-based awards is recognized from the service commencement date to the contractual vesting date. Compensation expense in respect of the share-based payment arrangement is based on the grant date fair value. Where the service commencement date precedes the grant date, compensation expense is recognized from the service commencement date based on the estimated fair value of the award at the grant date, with the estimated fair value adjusted to the actual fair value at the grant date. The amount recognized as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are met. If the Company estimates that it is not probable that the non-market vesting conditions will be met, no expense is recognized. Assessment of probability of the non-market vesting condition is re-evaluated at each balance sheet date.

Adoption of accounting standards

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

New standards and 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 October 31, 2017. 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. The Company will continue to monitor developments and assess the financial impact of this new standard.

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.

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 IFRS 15.

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. TRADE AND OTHER RECEIVABLES

As described in Note 12, the Company is exposed to credit risk with respect to its trade receivables. The Company is exposed to concentration of credit risk on the trade receivables from its customers and concentration risk within the financial services industry. As at October 31, 2017 approximately 76% of the trade receivable balances are owed from three customers (October 31, 2016 – 75% owed from three customers). The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past.

As at October 31, 2017 and October 31, 2016, the Company believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk, indicated as follows:

	October 31, 2017	October 31, 2016
	\$	\$
Neither impaired nor past due	153,710	180,283
Not impaired and past due in the following periods:		
31 to 60 days	144,453	111,968
61 to 90 days	44,151	27,971
Over 90 days	69,934	23,954
Impaired	-	-
Allowance for doubtful accounts	-	-
Trade receivables	412,248	344,176
Other receivables	26,694	4,240
Total accounts receivable	438,942	348,416

There has been no movement in the allowance for doubtful accounts since October 31, 2012.

The Company's trade receivables are non-interest bearing and are generally 30 day terms. The Company does not hold any collateral with respect to its receivables.

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

4. PLANT AND EQUIPMENT

	Leasehold Improvements	Office Equipment	Total
	\$	\$	\$
At October 31, 2017			
Cost	7,060	19,702	26,762
Accumulated depreciation	(235)	(4,478)	(4,713)
	6,825	15,224	22,049
Carrying value at November 1, 2016	-	12,183	12,183
Additions	7,060	6,086	13,146
Depreciation	(235)	(3,045)	(3,280)
Carrying value at October 31, 2017	6,825	15,224	22,049

	Leasehold Improvements	Office Equipment	Total
	\$	\$	\$
At October 31, 2016			
Cost	-	13,616	13,616
Accumulated depreciation	-	(1,433)	(1,433)
	-	12,183	12,183
Carrying value at November 1, 2015	-	9,799	9,799
Additions	-	4,827	4,827
Depreciation	-	(2,443)	(2,443)
Carrying value at October 31, 2016	-	12,183	12,183

At October 31, 2016, the Company derecognized plant and equipment assets that were disposed for nil consideration or otherwise determined to have no future economic benefit. As these asset were fully amortized, no loss was incurred at the time of derecognition.

Depreciation of plant and equipment is included in general and administration expense on the statement of comprehensive income.

5. TRADE AND OTHER PAYABLES

	October 31, 2017	October 31, 2016
	\$	\$
Remuneration payable	160,000	181,000
Trade payables	39,220	63,453
Related party payables (Note 9(b))	-	5,200
Other payables	25,221	6,847
	224,441	256,500

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

6. SHARE CAPITAL

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued and outstanding

Issued common shares of the Company are as follows:

	Number of Shares	Stated Capital
		\$
Balance, October 31, 2015, 2016 and 2017	27,286,332	5,627,519

The Company's shares are issued without par value.

Share option plan

The Company has established a share option plan under which officers, directors and selected employees can be granted options, to purchase common shares of the Company, with a maximum term of five years. The aggregate number of common shares issuable under the plan and any previous plan cannot exceed 2,500,000 common shares in total, and the number of common shares issuable to any one person under any option plan cannot exceed 5% of the total number of common shares outstanding from time to time. Options granted vest evenly on an annual basis over a three-year period. The exercise price of the option is fixed at the date of grant and may not be less than the fair market value per share of the common stock on that date. Any unexercised options that expire or are forfeited, thirty days after an employee ceases to be employed by the Company, become available again for issuance under the plan. The shareholders approved the existing plan on May 1, 2000. As at October 31, 2017 and October 31, 2016, no options are outstanding under the plan.

7. NON-CONTROLLING INTERESTS

On October 29, 2014, NamSys, which at that time was a subsidiary of Cencotech, issued 10,000 First Preference Shares, Series V at a price of \$100 per share for total proceeds of \$1,000,000. The Company incurred share issue costs of \$6,000 with respect to this financing along with a \$20,000 guarantee fee for total net proceeds of \$974,000. NamSys Inc. (formerly Cencotech Inc.) did not participate in this financing and as such the entire share issuance was subscribed by non-controlling interests.

The NamSys Series V preference shares were non-voting and had a fixed cumulative preferential dividend at an annual rate of \$8.00 per share, payable quarterly if declared. NamSys had the option to redeem the shares for \$100 per share at a rate not greater than 4,000 shares per year.

On May 1, 2015, NamSys redeemed 2,000 Series V preference shares for a total of \$200,000. On both February 1 and April 29, 2016, NamSys redeemed 2,000 Series V preference shares for a total of \$400,000, leaving a balance of 4,000 shares outstanding. On October 28, 2016, NamSys redeemed the remaining 4,000 shares for a total of \$400,000, leaving no Series V preference shares outstanding. Therefore, in the year ended October 31, 2017, the earnings attributable to the non-controlling interest and the dividends paid were \$nil (2016 – \$44,000).

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

7. NON-CONTROLLING INTERESTS (continued)

Prior to the Series V financing described above, Cencotech owned all of the issued and outstanding common and preference shares of NamSys. Cencotech retained 100% of the voting rights of NamSys. As described in Note 1, Cencotech and NamSys amalgamated on November 1, 2016, and continued to operate as NamSys Inc.

8. SEGMENT INFORMATION

Sales to major customers

In the year ended October 31, 2017, three customers accounted for 33.7%, 11.0% and 9.4% respectively of the Company's revenue (2016 – 28.2%, 10.6% and 7.7% respectively).

Revenue breakdown

In the year ended October 31, 2017, the Company's revenue was derived 100% from software related sales and services (2016 – 100%), as follows:

	2017	2016
	\$	\$
Hosted services, maintenance and product support	2,383,147	1,723,717
Licences	411,613	587,153
Professional services	110,795	89,021
	2,905,555	2,399,891

Geographic Information

In the year ended October 31, 2017, the Company recognized revenues of \$2,801,738 (2016 – \$2,163,861) in sales to U.S. customers and \$103,817 (2016 – \$236,030) in sales to customers in Canada.

All of the Company's plant and equipment are held in Canada.

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

(a) Key management remuneration

Compensation provided by the Company to key management personnel include salaries, consulting fees, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave, as well as non-monetary benefits such as medical care. The Company's non-monetary benefit package for key management personnel is the same as that available to all full-time employees. During the year ended October 31, 2017, the Company expensed \$464,000 (2016 - \$374,000) in remuneration to directors and other members of key management personnel.

Other than the adoption of the employee long-term bonus plan as described in Note 16, the Company did not provide any post-employment benefits, other long-term benefits or share-based payments to key management in the period or comparative period.

(b) The following summarizes the Company's related party transactions that have not been disclosed elsewhere in the financial statements:

Included in general and administration expenses in the year ended October 31, 2017, are rent and administration expenses of \$43,200 (2016 - \$37,170) and management fees of \$45,000 (2016 - \$nil) incurred from a company that is partially owned by the CEO of the Company. In addition, consulting expenses for sales and marketing included in selling expenses in the amount of \$45,000 were incurred in the year ended October 31, 2017 (2016 - \$45,000) from a company that is controlled by the Founder of NamSys.

Amounts due to related parties in trade and other payables at October 31, 2017 include amounts due to directors of \$nil (October 31, 2016 - \$5,200). The related party amounts included in trade and other payables are unsecured and non-interest bearing.

10. INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the corporate tax rate for the following reasons:

	2017	2016
	\$	\$
Combined basic Canadian federal and provincial income tax rate	26.50%	26.50%
Provision for income taxes based on above rates	333,912	293,075
Adjustments to determine taxable income	1,749	(14,075)
Change in unrecognized deferred tax assets	-	-
Income tax (recovery) expense	335,661	279,000

In the year ended October 31, 2017, the Company recognized a deferred income tax expense of \$224,000 (2016 - \$224,000) and, as a result, at October 31, 2017, the Company had net tax assets totaling \$301,000 (October 31, 2016 - \$525,000). This asset relates to deferred tax assets that arose from past operating losses, unclaimed investment tax credits and deferral of capital cost allowance. The amount of deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a high degree of measurement uncertainty. In the year ended October 31, 2017, the Company recognized a current income tax expense of \$111,661 (2016 - \$55,000) and, at October 31, 2017, the Company had an income taxes payable balance totaling \$59,606 (October 31, 2016 - \$55,000).

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

10. INCOME TAXES (continued)

The following summarizes the components of deferred income tax assets:

	October 31, 2017	October 31, 2016
	\$	\$
Deferred tax assets (liabilities)		
Loss carry-forwards	306,000	374,000
Investment tax credits	(42,000)	90,000
Plant and equipment, and intellectual assets	36,000	51,000
Other	1,000	10,000
	301,000	525,000
Unrecognized deferred tax assets	-	-
	301,000	525,000

The Company has losses available for carry forward to reduce future years' income taxes, all of which have been recognized in the financial statements as described above, which expire as indicated below:

	\$
2029	93,000
2030	232,000
2031	240,000
2032	252,000
2033	244,000
2034	30,000
2035	64,000
	1,155,000

11. INCOME PER SHARE

For the year ended October 31, 2017, the weighted average number of shares outstanding used to calculate basic and diluted income per share was 27,286,332 (2016 – 27,286,332).

12. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, trade and other receivables, and trade and other payables.

There were no significant changes in the risks discussed below during the years presented.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS (continued)

Risk management framework

The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company has exposure to credit risk, market risk and liquidity risk as follows:

Credit risk

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument held by the Company failed to meet its obligations in accordance with the terms and conditions of its contract with the Company or if there is a concentration of transactions carried out with the same counterparty. The financial instruments that primarily subject the Company to a significant concentration of credit risk are cash and trade receivables.

The Company's maximum credit risk exposure with respect to its trade receivables is its carrying value. The amounts disclosed in the balance sheet are net of allowances for doubtful accounts, which are estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of trade receivables. This allowance relates to individual exposures for trade receivables that are considered impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for the respective customers and, based upon management's evaluation, for which a risk of non-payment exists. See Note 3 for further details of trade receivables and details of concentration risk within trade receivables.

The Company's cash is held with reputable financial institutions, from which management believes the risk of loss to be minimal.

Market risk

Market risk is the risk of loss that may arise from changes in market prices, such as foreign exchange rates, which will affect the Company's income or the value of its financial instruments.

The Company sells to both Canadian and American clients giving rise to exposure to market risks from changes in foreign exchange rates. For the year ended October 31, 2017, approximately 96% of the Company's sales revenues are denominated in U.S. dollars (2016 – 90%). The Company is exposed to fluctuations on expenditures which are denominated in U.S. dollars. These potential currency fluctuations could have an impact on the cost of producing goods and services sold and thereby the profitability of the Company. A \$0.05 increase or decrease in the Canadian and U.S. exchange rate would result in a \$17,000 (2016 - \$12,000) increase (decrease) in operating income for the period. At October 31, 2017 cash balances included U.S. \$23,646 (October 31, 2016 – U.S. \$25,672), trade and other receivables included U.S. \$309,501 (October 31, 2016 – U.S. \$207,204) and trade and other payables included U.S. \$406 (October 31, 2016 – U.S. \$406). The Company monitors the movement in currency exchange rates and, on that basis, decides on the appropriate measures to take. Exchange rates at the present time are such that no measures are currently being taken.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company has financial liabilities outstanding including trade and other payables. These financial liabilities are due within one year.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

Fair Value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying value of cash, trade receivables, and trade and other payables approximates their fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

13. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its share capital and deficit amounting to \$2,029,591 as at October 31, 2017 (October 31, 2016 – \$1,105,208). Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Company's overall strategy with respect to management of capital remains unchanged from the year ended October 31, 2016.

NamSys Inc.

NOTES TO FINANCIAL STATEMENTS

For the year ended October 31, 2017 and 2016

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14. COMMITMENTS

The Company has leased its operating premises under two operating leases expiring November 30, 2018 and January 31, 2019, with non-cancellable payments due as follows:

	\$
Not later than one year	81,060
Later than one year and not later than five years	9,015
<u>Total commitments</u>	<u>90,075</u>

During the year ended October 31, 2017, the Company recorded an expense for its operating leases in the amount of \$81,060 (2016 - \$81,501) in general and administration expenses in the statement of comprehensive income.

15. COMPENSATION EXPENSE

Total employee compensation expense provided by the Company for salaries and statutory benefits during the year ended October 31, 2017, included \$483,576 (2016 - \$470,099) recognized in cost of sales, \$137,834 (2016 - \$109,686) recognized in selling expenses, and \$103,204 (2016 - \$138,973) recognized in general and administration expenses.

16. EMPLOYEE LONG TERM BONUS PLAN

On June 29, 2015, both the Directors of 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 October 31, 2017, the Company does not envision a change of control event occurring within the foreseeable future.