

NamSys Inc.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED JULY 31, 2021

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, 2021 and 2020 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 commenced business in the late 1980's when it was a sales representative organization for currency solutions which, at that time, were largely mechanical. In the mid 1990's, management decided to custom build some of the mechanical devices customers were seeking and continued to sell these solutions until approximately 2005. During the latter period noted above, the Company began to create software to assist with the efficiency of the solution being sold. In 2006, the Company decided to exit the very competitive mechanical equipment market and sold the division to a U.S. client (which continues today as a distributor of the Company's software).

Early software development by the Company was largely customized to the clients needs and licensed by the Company to such clients. However, approximately twelve years ago certain customized functions were offered to a broad base of customers (largely through currency carriers). The Company referred to such offerings as "dashboard solutions" and ran the processes on its own dedicated computer system. This was essentially an early cloud computing solution. Over time, the formal cloud computing paradigm became acceptable to larger organizations. The Company's present business is largely directed to this delivery channel, with a variety of solutions to move, manage and account for currency now being largely driven by cloud based solutions.

The Company's cloud based ("SaaS") products are labelled as "Cirreon" and "Currency Controller", and are well recognized in the industry.

Quarterly Financial Data

The table below presents selected financial data of the Company for each of the eight fiscal quarters ended July 31, 2021:

	Fiscal quarter end							
	Jul. 31 2021	Apr. 30 2021	Jan. 31 2021	Oct. 31 2020	Jul. 31 2020	Apr. 30 2020	Jan. 31 2020	Oct. 31 2019
	(in thousands of dollars)							
Revenue	1,231	1,245	1,226	1,236	1,196	1,190	1,124	1,108
Gross profit (loss)	729	752	789	(1,210)	636	800	612	654
Income (loss) after tax	329	306	310	(1,915)	157	471	196	256
Comprehensive income (loss) per share:								
Basic	0.012	0.011	0.011	(0.070)	0.006	0.017	0.007	0.009
Diluted	0.012	0.011	0.011	(0.070)	0.006	0.017	0.007	0.009

Results of Operations

Three months ended July 31, 2021 compared to Three months ended July 31, 2020

Revenue

	2021	2020	Change	Change %
	\$	\$	\$	
Software subscriptions, hosted services, maintenance and product support	1,213,923	1,190,628	23,295	2.0%
Licences	-	-	-	-
Professional services	17,300	5,636	11,664	207.0%
	1,231,223	1,196,264	34,959	2.9%

Revenue in the three months ended July 31, 2021, increased in comparison to the same period in the prior year. The Company's total sales for the three months ended July 31, 2021, were \$1,231,223 as compared to \$1,196,264 for the corresponding period in 2020, an increase of \$34,959 or 2.9%. The Company continues to see growth in its "software-as-a-service" offerings and benefits from this model as the services are paid monthly.

The Company generates software revenue from Cirreon and Currency Controller software subscriptions and hosted services, upgrading legacy license holder's systems, training, consulting and from recurring revenues for maintenance and product support of legacy systems. The majority of the Company's legacy 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, software subscriptions and hosted services (SaaS) revenue for the three months ended July 31, 2021, represented \$1,213,923 of the total revenue compared to \$1,190,628 for the corresponding three months the previous year, an increase of \$23,295 or 2.0%. Recurring revenue represented 98.6% of total sales revenue in the three months ended July 31, 2021, as compared to 99.5% in the same three months of fiscal 2020.

Cost of Goods Sold and Gross Profit

Three months ended July 31, 2021 compared to Three months ended July 31, 2020

Historically, the sales mix between software license fees and subscriptions, 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. dollar sales represent 95% or more of total sales.

Cost of goods sold for the three months ended July 31, 2021, was \$502,549 compared to \$560,028 in the corresponding period in 2020. The overall Gross Profit achieved in the third quarter of 2021 was \$728,674 or 59.2%, compared to Gross Profit for the corresponding period in 2020 of \$636,236 or 53.2%, an increase in Gross Margin percentage of 6.0 percentage points.

Selling Expenses

Three months ended July 31, 2021 compared to Three months ended July 31, 2020

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, 2021, totaled \$66,053, a decrease of \$124,770 or 65.4% from \$190,823 in the corresponding period of 2020. This decrease is primarily because, as described below and in Note 15 of the Financial Statements, effective October 30, 2020, the Employee Long Term Bonus Plan was terminated and, as a result, no amount was accrued in the current quarter whereas \$125,244 was accrued in the comparative quarter. Various other selling expenses increased by an aggregate of \$474 in the period, such that the overall decrease was \$124,770. Selling expense was 5.4% of revenue in the third quarter of 2021 as compared to 16.0% in the 2020 same quarter, recognizing that revenues in the 2021 period were up \$34,959 or 2.9% from the 2020 comparative period.

General and Administration Expenses

Three months ended July 31, 2021 compared to Three months ended July 31, 2020

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 \$209,065 in the three months ended July 31, 2021, as compared to \$193,886 in the 2020 comparative period, an increase of \$15,179 or 7.8%.

G&A expense increased in the current quarter primarily due to increased cyber security costs of \$5,250 and an increase in office insurance expense of \$5,753. Various other G&A costs increased by \$4,176, in aggregate, period-over-period resulting in the total expense in the quarter ended July 31, 2021, being higher by \$15,179 versus the comparative quarter.

Depreciation of property and equipment for the three months ended July 31, 2021, of \$2,439 increased by \$710 or 41.1% from \$1,729 in the same period of 2020. The level of amortization is a result of the Company incurring only minor expenditures for property and equipment over the last several years.

Depreciation of the right-of-use asset for the three months ended July 31, 2021, is \$16,152 (2020 – \$16,151). The Company adopted IFRS 16 – Leases on November 1, 2019. The adoption of IFRS 16 resulted in the recognition of a right-of-use asset in respect of the Company's operating premises lease. The right-of-use asset is depreciated on a straight-line basis over the lease term, which expires December 31, 2021.

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 17.0% in the third quarter of 2021 as compared to 16.2% in the 2020 third quarter.

Financing and Other Costs and Income

Other than trade and other payables, and a lease liability, the Company has no debt outstanding and, other than a finance cost on the lease liability, incurred no interest expense in respect of outstanding debt in the current or comparative period.

Interest income

The Company holds a \$2,000,000 term deposit which matures on March 22, 2022 and bears interest at 0.78% per annum. In respect of term deposits, for the quarter ended July 31, 2021, \$3,932 of interest income was recognized (\$19,154 for the quarter ended July 31, 2020).

Finance cost on lease liability

The Company adopted IFRS 16 – Leases on November 1, 2019. The adoption of IFRS 16 resulted in the recognition of a lease liability in respect of the Company's operating premises lease expiring December 31, 2021. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. For the three months ended July 31, 2021, the finance cost recognized was \$382 (2020 – \$1,016).

Gain (loss) on foreign exchange

The Company recognized a loss on foreign exchange of \$8,972 in the third quarter of 2021, whereas a loss of \$56,310 was experienced in the comparative quarter of 2020. This results in an increase in income of \$47,338 in the 2021 third quarter as compared to the 2020 same period. The loss on foreign exchange recognized in the quarter ended July 31, 2021, is a result of both the large number of clients that are domiciled in the USA and other countries, which are invoiced for services in US dollars, along with the fluctuation 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 2021 third quarter of \$448,134 (2020 – basic rate of 26.50% and pre-tax income of \$213,355), resulting in a current income tax expense of \$118,244 (2020 – expense of \$121,717). Deferred income tax expense was \$1,000 in the third quarter of 2021 (2020 – recovery of \$65,000).

As a result of recognizing a current income tax expense of \$70,350 in the first quarter of 2021, \$110,274 in the second quarter and \$118,244 in the third quarter, as well as receiving a

refund of income taxes of \$161,062 in the third quarter, at July 31, 2021, the Company had income taxes receivable totaling \$459,693 (October 31, 2020 – \$919,623).

As a result of recognizing a deferred income tax expense of \$42,000 in the first quarter of 2021, \$nil in the second quarter and \$1,000 in the third quarter, at July 31, 2021, the Company had deferred income tax assets totaling \$12,000 (October 31, 2020 – \$55,000). This asset primarily relates to deferred tax assets from deferral of capital cost allowance.

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, 2021 was \$328,890 as compared to income of \$156,638 in the three months ended July 31, 2020.

Three months ended July 31,

	2021	2020
	\$	\$
Comprehensive income (loss)	328,890	156,638
Income (loss) per share:		
Basic	0.01	0.01
Diluted	0.01	0.01

For the three months ended July 31, 2021, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2020 – 27,286,332).

Nine months ended July 31, 2021 compared to Nine months ended July 31, 2020

Revenue

	2021	2020	Change	Change %
	\$	\$	\$	
Software subscriptions, hosted services, maintenance and product support	3,649,371	3,487,698	161,673	4.6%
Licences	-	-	-	-
Professional services	52,925	22,298	30,627	137.4%
	<u>3,702,296</u>	<u>3,509,996</u>	<u>192,300</u>	<u>5.5%</u>

Revenue in the nine months ended July 31, 2021, increased in comparison to the same period in the prior year. The Company's total sales for the nine months ended July 31, 2021, were \$3,702,296 as compared to \$3,509,996 for the corresponding period in 2020, an increase of \$192,300 or 5.5%. The Company continues to see growth in its "software-as-a-service" offerings and benefits from this model as the services are paid monthly.

The Company generates software revenue from Cirreon and Currency Controller software subscriptions and hosted services, upgrading legacy license holder's systems, training, consulting and from recurring revenues for maintenance and product support of legacy systems. The majority of the Company's legacy 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, software subscriptions and hosted services (SaaS) revenue for the nine months ended July 31, 2021, represented \$3,649,371 of the total revenue compared to \$3,487,698 for the corresponding nine months the previous year, an increase of \$161,673 or 4.6%. Recurring revenue represented 98.6% of total sales revenue in the nine months ended July 31, 2021, as compared to 99.4% in the same nine months of fiscal 2020.

Cost of Goods Sold and Gross Profit

Nine months ended July 31, 2021 compared to Nine months ended July 31, 2020

Historically, the sales mix between software license fees and subscriptions, 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. dollar sales represent 95% or more of total sales.

Cost of goods sold for the nine months ended July 31, 2021, was \$1,432,116 compared to \$1,462,606 in the corresponding period in 2020. The overall Gross Profit achieved in the first three-quarters of 2021 was \$2,270,180 or 61.3%, compared to Gross Profit for the corresponding period in 2020 of \$2,047,390 or 58.3%, an increase in Gross Margin percentage of 3.0 percentage points.

Selling Expenses

Nine months ended July 31, 2021 compared to Nine months ended July 31, 2020

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, 2021, totaled \$213,286, a decrease of \$248,286 or 53.8% from \$461,572 in the corresponding period of 2020. This decrease is primarily because, as described below and in Note 15 of the Financial Statements, effective October 30, 2020, the Employee Long Term Bonus Plan was terminated and, as a result, no amount was accrued in the current three-quarters whereas \$248,033 was accrued in the comparative three-quarters. Various other selling expenses decreased by an aggregate of \$253 in the period. Selling expense was 5.8% of revenue in the first three-quarters of 2021 as compared to 13.2% in the 2020 same three-quarters, recognizing that revenues in the 2021 period were up \$192,300 or 5.5% from the 2020 comparative period.

General and Administration Expenses

Nine months ended July 31, 2021 compared to Nine months ended July 31, 2020

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 \$659,469 in the nine months ended July 31, 2021, as compared to \$538,641 in the 2020 comparative period, an increase of \$120,828 or 22.4%.

G&A expense increased in the current three-quarters primarily due to higher Employer Health Tax (EHT) expense of \$59,768 and professional and other fees of \$41,740 associated with the termination of the Employee Long Term Bonus Plan as described below and in Note 15 of the Financial Statements, and increased cyber security costs of \$17,650. Various other G&A costs increased by \$1,670, in aggregate, period-over-period resulting in the total expense in the nine months ended July 31, 2021, being higher by \$120,828 versus the comparative three-quarters.

Depreciation of property and equipment for the nine months ended July 31, 2021, of \$7,326 increased by \$2,460 or 50.6% from \$4,866 in the same period of 2020. The level of amortization is a result of the Company incurring only minor expenditures for property and equipment over the last several years.

Depreciation of the right-of-use asset for the nine months ended July 31, 2021, is \$48,454 (2020 – \$48,455). The Company adopted IFRS 16 – Leases on November 1, 2019. The adoption of IFRS 16 resulted in the recognition of a right-of-use asset in respect of the Company’s operating premises lease. The right-of-use asset is depreciated on a straight-line basis over the lease term, which expires December 31, 2021.

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 17.8% in the first three-quarters of 2021 as compared to 15.3% in the 2020 first three-quarters.

Financing and Other Costs and Income

Other than trade and other payables, and a lease liability, the Company has no debt outstanding and, other than a finance cost on the lease liability, incurred no interest expense in respect of outstanding debt in the current or comparative period.

Interest income

The Company holds a \$2,000,000 term deposit which matures on March 22, 2022 and bears interest at 0.78% per annum and held a \$4,230,000 term deposit which matured on November 26, 2020, and bore interest at 1.7% per annum, and a \$400,000 term deposit which matured on February 19, 2021, and bore interest at 1.02% per annum. In respect of term deposits, for the nine months ended July 31, 2021, \$13,122 of interest income was recognized (\$51,658 for the nine months ended July 31, 2020).

Finance cost on lease liability

The Company adopted IFRS 16 – Leases on November 1, 2019. The adoption of IFRS 16 resulted in the recognition of a lease liability in respect of the Company’s operating premises

lease expiring December 31, 2021. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. For the nine months ended July 31, 2021, the finance cost recognized was \$1,627 (2020 – \$3,511).

Gain (loss) on foreign exchange

The Company recognized a loss on foreign exchange of \$122,268 in the first three-quarters of 2021, whereas a gain of \$25,111 was experienced in the comparative three-quarters of 2020. This results in a decrease in income of \$147,379 in the 2021 first three-quarters as compared to the 2020 same period. The loss on foreign exchange recognized in the nine months ended July 31, 2021, is a result of both the large number of clients that are domiciled in the USA and other countries, which are invoiced for services in US dollars, along with the fluctuation 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 2021 first three-quarters of \$1,286,719 (2020 – basic rate of 26.50% and pre-tax income of \$1,120,632), resulting in a current income tax expense of \$298,868 (2020 – expense of \$426,775). The reversal of temporary differences resulted in a deferred income tax expense of \$43,000 in the first three-quarters of 2021 (2020 – recovery of \$129,000).

As a result of recognizing a current income tax expense of \$298,868 in the first three-quarters of 2021 and receiving a refund of income taxes of \$161,062, at July 31, 2021, the Company had income taxes receivable totaling \$459,693 (October 31, 2020 – \$919,623).

As a result of recognizing a deferred income tax expense of \$43,000 in the first three-quarters of 2021, at July 31, 2021, the Company had deferred income tax assets totaling \$12,000 (October 31, 2020 – \$55,000). This asset primarily relates to deferred tax assets from deferral of capital cost allowance.

Related Party Transactions

The following summarizes the Company's related party transactions:

- a) Rent and administration expenses in the amount of \$34,200 (2020 – \$34,200) and management fees of \$45,000 (2020 – \$45,000) were incurred in the nine months ended July 31, 2021, from a company that is partially owned by the Chairman of the Board ("Chairman") of the Company (formerly the Chief Executive Officer). In addition, consulting expenses for sales and marketing in the amount of \$33,750 were incurred in the nine months ended July 31, 2021 (2020 – \$33,750) from a company that is controlled by the Founder of the Company.
- b) Included in trade and other payables at July 31, 2021, are amounts due to directors of \$31,709 (October 31, 2020 – \$89,412); an amount due to a company that is controlled by the Founder of the Company of \$4,238 (October 31, 2020 – \$nil); and an amount due to the Chief Financial Officer of the Company of \$13,475 (October

31, 2020 – \$12,331). 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, 2021 was \$944,851 as compared to income of \$822,857 in the nine months ended July 31, 2020.

Nine months ended July 31,

	2021	2020
	\$	\$
Comprehensive income (loss)	944,851	822,857
Income (loss) per share:		
Basic	0.03	0.03
Diluted	0.03	0.03

For the nine months ended July 31, 2021, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2020 – 27,286,332).

Liquidity and Capital Resources

General

During the most recent five year period ended October 31, 2020, 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 \$4,678,970 at July 31, 2021, compared to working capital of \$3,413,739 at October 31, 2020. Excluded from the July 31, 2021, working capital calculations are: prepaid expenses of \$94,945 (October 31, 2020 – \$68,818); and deferred revenue of \$551,265 (October 31, 2020 – \$267,826).

For the nine months ended July 31, 2021, the Company had negative cash flow from operations of (\$2,917,561) as compared to positive cash flow from operations of \$1,195,097 in the nine months ended July 31, 2020. The decrease in cash flow from operations is due to the amount paid in the first three-quarters of 2021 of \$3,949,697 in respect of the termination of the employee long term bonus plan.

BALANCE SHEET

Short Term Investments

At July 31, 2021, the Company held a \$2,000,000 term deposit which matures on March 22, 2022, and bears interest at 0.78% per annum. At October 31, 2020, the Company held a \$400,000 term deposit which matured on February 19, 2021, and bore interest at 1.02% per annum, and a \$4,230,000 term deposit which matured on November 26, 2020, and bore interest at 1.7% per annum.

Total interest accrued for the nine months ended July 31, 2021 in respect of term deposits amounted to \$13,122 (2020 – \$51,658).

Trade and Other Receivables

At July 31, 2021, the Company had trade and other receivables of \$688,134 (October 31, 2020 – \$648,868) of which \$32,854 (October 31, 2020 – \$17,049) was reallocated to non-current assets. One foreign customer withheld an aggregate amount of \$32,854, for value added tax, from payments made to the Company in respect of trade receivables. The Company believes the withholdings were made in error and the amount will be recovered. However, as it is likely the recovery will not be realized within the next twelve months, the receivable was reallocated to non-current assets.

The amount of receivables over 90 days past due, at July 31, 2021, is \$119,299 (October 31, 2020 – \$29,132). Based on subsequent collections and a review of outstanding balances, the Company believes no provision for expected credit losses is required at this time.

Property and Equipment

Property 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

Property 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, 2021, the Company recognized a deferred income tax expense of \$43,000 and, as a result, at July 31, 2021, the Company had deferred income tax assets totaling \$12,000 (October 31, 2020 – \$55,000). 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.

Right-of-Use Asset and Lease Liability

The Company adopted IFRS 16 – Leases on November 1, 2019. The adoption of IFRS 16 has resulted in the recognition of a right-of-use asset and a lease liability in respect of the Company's operating premises lease expiring December 31, 2021.

Financing Agreements

Other than trade and other payables, a lease liability and amounts accrued in accordance with the termination of the employee long term bonus plan, the Company has no debt outstanding.

Employee Long Term Bonus Plan

On June 29, 2015, the Directors passed a resolution establishing an Employee Long Term Bonus Plan (the "Plan"). The purpose of the Plan was to compensate and reward employees and officers ("Plan Employees"), as determined at the sole discretion of the Directors, upon the occurrence of a change of control event.

On July 2, 2019 the Directors amended the plan to include the Company's President and Chief Executive Officer ("CEO") (formerly the Chief Operating Officer ("COO")) who had become a director of the Company on April 24, 2018. By becoming a director, he was inadvertently excluded from the Plan based on its original wording.

In addition to the above amendment, on July 2, 2019, the Company and its CEO (formerly COO) entered into an employment agreement which included the following two clauses:

- i) in the event of the CEO (formerly COO) being terminated without cause or upon his death (either, a "valuation date"), the CEO (formerly COO) or his estate will be entitled to 40% of the Plan at the valuation date determined by the weighted average trading price of the Company on the TSX-V Exchange for the 20 trading days preceding the valuation date, multiplied by the total number of common shares outstanding on the valuation date or, in lieu of cash settlement, the same number of shares of the Company be registered in his or her name.
- ii) if a termination event as set out above or change of control event as set out in the Plan resolution has not occurred before December 31, 2021, the CEO (formerly COO) will have the right to receive 40% of the Plan value as calculated above as of December 31, 2021.

The amounts due to the CEO (formerly COO) under this Plan were being recognized as an expense over the vesting period from July 2, 2019 to December 31, 2021. In the nine months ended July 31, 2020, \$496,066 was expensed in the statements of comprehensive income. \$248,033 was expensed in cost of sales and \$248,033 in selling expenses.

On October 30, 2020, the Directors, with the concurrence of the Plan Employees, terminated the Plan. The payout amount agreed to was \$3,949,697, of which three-quarters (\$2,962,272) was payable in cash and one-quarter (\$987,425) to be settled through common shares of the Company. The balance of the termination proceeds (\$987,425) was held by the Company pending upon a decision by the recipients as to how they wished to acquire the common shares of the Company. The recipients in late January 2021 determined that they would accept an offer to acquire common shares from the Chairman (formerly CEO) using the

balance of the termination proceeds (\$987,425) and close the transaction before the end of February 2021. The full amount of the Plan termination obligation was expensed in fiscal 2020. The cash amount (\$2,962,272) was settled in December 2020 and the share portion (\$987,425) was settled in February 2021.

As a result of the termination of the Plan, in the nine months ended July 31, 2021, \$nil was expensed in the statements of comprehensive income.

Contractual Obligations

A summary of the Company's undiscounted contractual obligations, at July 31, 2021:

	Total	Less than 1 year	1 to 5 years
	\$	\$	\$
Trade and other payables	352,967	352,967	-
Income taxes payable	-	-	-
Premises lease	28,125	28,125	-
	381,092	381,092	-

Capital Expenditures

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology, property and equipment purchases, and capital investments into intellectual property. During the first three-quarters of 2021, capital expenditures were \$8,712 as compared to \$4,382 in the first three-quarters of 2020.

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 uses the Canadian dollar 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.

Property and equipment

The Company uses an historic cost model in reporting its property 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 August 1, 2021. At the present time, the Company does not believe any known, future changes to IFRS will have a direct impact on the Company based on its current operations. If the Company determines that any amendments or proposed changes will impact the financial statements, the Company will disclose the details of those updated standards at that time.

Additional Information

Additional information relating to the Company including the interim and annual financial statements are available on SEDAR at www.sedar.com.

Outstanding Share Data

Summary of securities issued and outstanding as at July 31, 2021

<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, 2021.

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, 2021, 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 property 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. 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.

Novel Coronavirus ("COVID-19")

Since March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans and self-imposed quarantine periods, have caused material disruption to businesses globally resulting in an economic slowdown. The Company cannot accurately predict the continued impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company.

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 23, 2021