

# **NamSys Inc.**

Financial Statements  
Expressed in Canadian Dollars  
For the years ended October 31, 2020 and 2019

*Audit. Tax. Advisory.*

Independent Auditor's Report  
To the Shareholders of NamSys Inc.

## **Opinion**

We have audited the financial statements of NamSys Inc. (the "Company"), which comprise the balance sheet as at October 31, 2020, and the statement of income (loss) and comprehensive income (loss), statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

## **Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Other matter**

The financial statements of the Company for the year ended October 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on January 28, 2020.

## **Other information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

# McGovern Hurley

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- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Koko Yamamoto.

**McGovern Hurley LLP**



**Chartered Professional Accountants  
Licensed Public Accountants**

Toronto, Ontario  
February 24, 2021

# NamSys Inc.

## BALANCE SHEETS

As at October 31, (Expressed in Canadian dollars)	2020	2019 <sup>(a)</sup>
	\$	\$
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	1,534,991	1,825,584
Short term investment (Note 16)	4,700,043	2,539,233
Trade and other receivables (Note 3)	631,819	1,040,099
Income taxes receivable (Note 9)	919,623	-
Prepaid expenses	68,818	65,313
	<u>7,855,294</u>	<u>5,470,229</u>
NON-CURRENT TRADE RECEIVABLE (Note 3)	17,049	-
PROPERTY AND EQUIPMENT (Note 4)	34,627	31,412
DEFERRED INCOME TAXES (Note 9)	55,000	53,000
RIGHT-OF-USE ASSET (Note 17)	75,373	-
	<u>8,037,343</u>	<u>5,554,641</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Trade and other payables (Notes 5 and 8)	357,385	337,188
Income taxes payable (Note 9)	-	429,241
Deferred revenue	267,826	148,249
Current portion of lease liability (Note 17)	65,655	-
Current portion of employee long term bonus plan (Note 15)	3,949,697	-
	<u>4,640,563</u>	<u>914,678</u>
EMPLOYEE LONG TERM BONUS PLAN (Note 15)	-	163,718
LONG-TERM LEASE LIABILITY (Note 17)	11,195	-
	<u>4,651,758</u>	<u>1,078,396</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	5,627,519	5,627,519
Deficit	(2,241,934)	(1,151,274)
	<u>3,385,585</u>	<u>4,476,245</u>
	<u>8,037,343</u>	<u>5,554,641</u>

Commitments and contingencies (Note 13)

(a) Certain prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2).

Approved on behalf of the Board:

K. Barry Sparks (signed), Director

Joe Prodan (signed), Director

# NamSys Inc.

## STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the years ended October 31, (Expressed in Canadian dollars)	2020	2019 <sup>(a)</sup>
	\$	\$
<b>REVENUE (Note 7)</b>	<b>4,745,950</b>	4,118,500
<b>COST OF SALES (Notes 14 and 15)</b>	<b>1,973,381</b>	1,367,785
<b>GROSS PROFIT</b>	<b>2,772,569</b>	2,750,715
<b>EXPENSES</b>		
Selling (Notes 8, 14 and 15)	610,628	434,794
General and administration (Notes 4, 8, 14, 15 and 17)	749,965	589,448
Employee long term bonus plan termination (Note 15)	2,981,313	-
	<b>4,341,906</b>	1,024,242
<b>OPERATING INCOME (LOSS)</b>	<b>(1,569,337)</b>	1,726,473
<b>Other income (expenses)</b>		
Interest income (Note 16)	71,008	39,233
Finance cost on lease liability (Note 17)	(4,370)	-
Gain on foreign exchange	19,646	1,319
	<b>86,284</b>	40,552
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(1,483,053)</b>	1,767,025
<b>INCOME TAX (EXPENSE) RECOVERY (Note 9)</b>		
Deferred taxes	2,000	27,000
Current taxes	390,393	(495,028)
	<b>392,393</b>	(468,028)
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	<b>(1,090,660)</b>	1,298,997
<b>BASIC AND DILUTED INCOME (LOSS) PER SHARE (Note 10)</b>	<b>(0.04)</b>	0.05

(a) Certain prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2).

## NamSys Inc.

### STATEMENTS OF CHANGES IN EQUITY

For the years ended October 31, 2020 and 2019

	Share Capital Number of Shares	Share Capital \$	Deficit \$	Total \$
(Expressed in Canadian dollars)				
<b>Balance as at October 31, 2018</b>	27,286,332	5,627,519	(2,450,271)	3,177,248
Net income for the year	-	-	1,298,997	1,298,997
<b>Balance as at October 31, 2019</b>	27,286,332	5,627,519	(1,151,274)	4,476,245
<b>Balance as at October 31, 2019</b>	27,286,332	5,627,519	(1,151,274)	4,476,245
Net loss for the year	-	-	(1,090,660)	(1,090,660)
<b>Balance as at October 31, 2020</b>	27,286,332	5,627,519	(2,241,934)	3,385,585

# NamSys Inc.

## STATEMENTS OF CASH FLOWS

For the years ended October 31, (Expressed in Canadian dollars)	2020	2019 <sup>(a)</sup>
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Comprehensive income (loss)	(1,090,660)	1,298,997
Non-cash items:		
Depreciation of property and equipment (Note 4)	6,691	6,331
Depreciation of right-of-use asset (Note 17)	64,607	-
Finance cost on lease liability (Note 17)	4,370	-
Deferred income tax expense (Note 9)	(2,000)	(27,000)
Accrued interest on short term investment (Note 16)	(70,810)	(39,233)
Employee long term bonus plan (Note 15)	3,785,979	163,718
	<u>2,698,177</u>	<u>1,402,813</u>
Changes in:		
Trade and other receivables (Note 3)	408,280	(533,268)
Income taxes receivable (Note 9)	(919,623)	-
Prepaid expenses	(3,505)	6,169
Non-current trade receivable (Note 3)	(17,049)	-
Trade and other payables (Notes 5 and 8)	20,197	122,422
Income taxes payable (Note 9)	(429,241)	429,241
Deferred revenue	119,577	(23,891)
	<u>1,876,813</u>	<u>1,403,486</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of short term investment (Note 16)	(2,090,000)	(2,500,000)
Purchase of property and equipment (Note 4)	(9,906)	(13,415)
	<u>(2,099,906)</u>	<u>(2,513,415)</u>
<b>FINANCING ACTIVITIES</b>		
Payment of lease liability (Note 17)	(67,500)	-
<b>NET DECREASE IN CASH DURING THE YEAR</b>	<b>(290,593)</b>	<b>(1,109,929)</b>
<b>CASH, beginning of year</b>	<b>1,825,584</b>	<b>2,935,513</b>
<b>CASH, end of year</b>	<b>1,534,991</b>	<b>1,825,584</b>
<b>Supplemental cash flow information:</b>		
Income taxes paid	958,899	65,787

(a) Certain prior period figures are not comparable due to the adoption of IFRS 16 (refer to Note 2).

# NamSys Inc.

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## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS

NamSys Inc. ("Namsys") was incorporated under the Alberta Business Corporations Act, under the name Cencotech Inc. ("Cencotech"), on January 29, 1997 and was continued under the Ontario Business Corporations Act on October 31, 1999. On November 1, 2016, Cencotech amalgamated with its then wholly owned subsidiary Namsys, and continues under the name Namsys (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 145 Richmond Street West, Suite 2002, Toronto, Ontario, M5H 2L2. The Company is listed on the TSX Venture Exchange under the symbol "CTZ".

These financial statements for the year ended October 31, 2020, were approved and authorized for issue by the Board of Directors on February 24, 2021.

### 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 years 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, except for cash flow information, 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.

#### 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 years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 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 period 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 and 11 – determination of the allowance for expected credit losses
- Note 4 – estimated useful life and residual value of property and equipment
- Note 9 – determination of probable future taxable income
- Note 13 – contingencies
- Note 15 – estimated value of share-based payments

#### *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
- Note 9 – recoverability of deferred tax assets

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial Instruments

##### *Recognition and initial measurement*

Financial assets and financial liabilities, including derivatives, are recognized in the balance sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as fair value through profit and loss ("FVTPL"), are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net income.

##### *Classification and subsequent measurement*

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories: a) amortized cost and b) fair value through profit or loss.

##### *Financial instruments at amortized cost*

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL:

- (i) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities, including derivative liabilities, are subsequently measured at fair value with changes in fair value recorded in net income in the period in which they arise to the extent they are not part of a designated hedging relationship. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method, with gains and losses recognized in net income in the period that the liability is derecognized.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial instruments at fair value through profit or loss*

Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial instruments are classified as held for trading if acquired principally for the purpose of selling in the near future or if part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-making. All financial assets not classified as amortized cost are measured at FVTPL. This includes derivative financial assets that are not part of a designated hedging relationship. Financial instruments classified as FVTPL are measured at fair value, with changes in fair value recorded in net income in the period in which they arise.

The Company has no financial instruments designated as FVTPL as at October 31, 2020. As at October 31, 2019, the employee long term bonus plan liability was designated as FVTPL.

#### *Impairment of financial instruments*

The Company recognizes a loss allowance on a forward-looking basis at an amount equal to the lifetime expected credit loss ("ECL") on its financial assets measured at amortized cost.

Lifetime ECL represents the expected credit losses that will result from all probable default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the period-end.

#### *Impairment - trade and other receivables*

The lifetime ECL allowance for impairment is recognized for trade and other receivables. It is estimated based on the Company's historical loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current as well as forecast direction of conditions at the reporting date. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in general and administrative expenses in the statements of comprehensive income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in general and administrative expenses in the statements of comprehensive income.

#### *Cash*

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

#### *Short term investments*

Short term investments are fixed-income securities with original maturities of one year or less that are carried at cost plus accrued interest.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *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.

#### **Property and equipment**

Property 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 property and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of an asset or cash-generating unit ("CGU") (see definition below) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 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 periods. Such reversal is recognized in net income (loss).

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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

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.

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.

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.

#### 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 periods. 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.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net income (loss) 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.

#### Share-based payments and Employee Long-Term Bonus Plan

Compensation under the Company's Employee Long Term Bonus Plan is a share-based award which is to be settled in cash or shares of the Company. Compensation expense for share-based awards is recognized from the service commencement date to the contractual vesting date.

The fair value of the amount payable to award recipients in respect of this cash settled plan is re-measured at each balance sheet date and a compensation expense is recognized as an expense over the vesting period with a corresponding change in the liability.

If the Company estimates that it is not probable that the non-market vesting conditions (i.e. the change in control event) will be met, no expense is recognized. Assessment of probability of the non-market vesting condition is re-evaluated at each balance sheet date.

#### Leased assets

As a result of adopting IFRS 16 in fiscal 2020, the lease accounting policies were updated effective November 1, 2019, as follows.

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in finance cost on lease liability in the statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration expenses in the statements of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in general and administration expenses in the statements of comprehensive income.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

#### Adoption of accounting standards

On November 1, 2019, the Company adopted IFRS 16 – Leases. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for all operating leases where the Company is a lessee. The Company transitioned to IFRS 16 in accordance with the modified retrospective approach, with the cumulative effect of initially applying the new standard, which was nil, recognized in retained earnings on November 1, 2019. The prior year's figures were not adjusted.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

	As previously reported under IAS 17 October 31, 2019	IFRS 16 transition adjustments	Balance at November 1, 2019
	\$	\$	\$
<b>Assets</b>			
Right-of-use asset	-	139,980	139,980
<b>Liabilities and shareholders' equity</b>			
Current portion of lease liability	-	63,130	63,130
Long-term lease liability	-	76,850	76,850
Deficit	(1,151,274)	-	(1,151,274)

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which have previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the lessee's incremental borrowing rate as of November 1, 2019. The lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on November 1, 2019 was 4.0 percent.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table reconciles the operating lease commitments as at October 31, 2019 to the opening balance of lease liabilities as at November 1, 2019:

	\$
Operating lease commitment as at October 31, 2019	149,640
Less: effect of discounting using the lessee's incremental borrowing rate	(6,270)
Less: short-term leases	(3,390)
<b>Lease liability recognized as at November 1, 2019</b>	<b>139,980</b>

The associated right-of-use asset was measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the Company has excluded initial direct costs in the measurement of the right-of-use asset on transition; and
- the Company accounted for real estate operating leases with a remaining lease term of less than 12 months as at October 31, 2019 as short-term leases.

#### **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 November 1, 2020. At the present time, the Company does not believe any 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.

# NamSys Inc.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 3. TRADE AND OTHER RECEIVABLES

As described in Note 11, 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, 2020, approximately 67% of the trade receivable balances are owed from three customers (October 31, 2019 – 81% 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, 2020 and October 31, 2019, the Company believes that its allowance for ECL is sufficient to reflect the related credit risk, indicated as follows:

	October 31, 2020	October 31, 2019
	\$	\$
Neither impaired nor past due	320,978	284,422
Not impaired and past due in the following periods:		
31 to 60 days	244,721	239,161
61 to 90 days	16,737	188,502
Over 90 days	29,132	315,988
Impaired	-	-
Allowance for ECL	-	-
Trade receivables	611,568	1,028,073
HST receivables	37,300	12,026
Total accounts receivable	648,868	1,040,099
Less: Amount reallocated to non-current trade receivable <sup>(a)</sup>	(17,049)	-
Current portion of accounts receivable	631,819	1,040,099

There has been no movement in the allowance for ECL 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.

(a) One foreign customer withheld an amount, for value added tax, from a payment made to the Company in respect of a trade receivable. The Company believes the withholding was 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 Company has reallocated the receivable to non-current assets.

# NamSys Inc.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 4. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Office Equipment	Total
	\$	\$	\$
<b>At October 31, 2020</b>			
Cost	13,210	44,359	57,569
Accumulated depreciation	(4,836)	(18,106)	(22,942)
	<b>8,374</b>	<b>26,253</b>	<b>34,627</b>
Carrying value at November 1, 2019	9,741	21,671	31,412
Additions	-	9,906	9,906
Depreciation	(1,367)	(5,324)	(6,691)
<b>Carrying value at October 31, 2020</b>	<b>8,374</b>	<b>26,253</b>	<b>34,627</b>

	Leasehold Improvements	Office Equipment	Total
	\$	\$	\$
<b>At October 31, 2019</b>			
Cost	13,210	34,452	47,662
Accumulated depreciation	(3,469)	(12,781)	(16,250)
	9,741	21,671	31,412
Carrying value at November 1, 2018	5,413	18,915	24,328
Additions	6,150	7,265	13,415
Depreciation	(1,822)	(4,509)	(6,331)
<b>Carrying value at October 31, 2019</b>	<b>9,741</b>	<b>21,671</b>	<b>31,412</b>

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

# NamSys Inc.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 5. TRADE AND OTHER PAYABLES

	October 31, 2020	October 31, 2019
	\$	\$
Remuneration payable	21,365	161,500
Trade payables	81,555	71,709
Related party payables (Note 8(b))	101,743	66,280
US State sales taxes and other payables	152,722	37,699
	<b>357,385</b>	<b>337,188</b>

### 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	Share Capital \$
<b>Balance, October 31, 2018, 2019 and 2020</b>	<b>27,286,332</b>	<b>5,627,519</b>

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, 2020 and October 31, 2019 and 2018, no options are outstanding under the plan.

# NamSys Inc.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 7. SEGMENT INFORMATION

#### Sales to major customers

In the year ended October 31, 2020, three customers accounted for 37.6%, 6.8% and 6.4% respectively of the Company's revenue (2019 – 39.0%, 7.9% and 6.9% respectively).

#### Revenue breakdown

In the year ended October 31, 2020, the Company's revenue was derived 100% from software related sales and services (2019 – 100%), as follows:

	2020	2019*
	\$	\$
Software subscriptions, hosted services, maintenance and product support	4,705,644	4,000,859
Licences	-	31,428
Professional services	40,306	86,213
	<b>4,745,950</b>	<b>4,118,500</b>

*\*In the past, all income from the right to use Currency Controller was classified as one-time revenue from licences. The Company reevaluated the nature of its Currency Controller offerings and has now reclassified the software-as-a-service income as recurring revenue from software subscriptions and hosted services.*

#### Geographic Information

In the years ended October 31, 2020 and 2019, the Company derived sales from multiple geographical areas, as follows:

	2020	2019
	\$	\$
US	3,930,965	3,449,099
Puerto Rico	235,798	244,768
Canada	183,037	156,153
Dominican Republic	157,447	137,613
Mexico	217,514	118,545
Other	21,189	12,322
	<b>4,745,950</b>	<b>4,118,500</b>

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

### 8. 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, 2020, the Company expensed \$533,000 (2019 – \$529,000) in remuneration to directors and other members of key management personnel.

# NamSys Inc.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 8. RELATED PARTY TRANSACTIONS (continued)

In addition, as described in note 15, during the year ended October 31, 2020 the Company expensed \$1,416,161 (2019 – \$163,718) to key management personnel under the employee long-term bonus plan. No amounts were paid out during the period.

Other than the adoption of the employee long-term bonus plan as described in Note 15, 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, 2020, are rent and administration expenses of \$45,600 (2019 – \$45,600) and management fees of \$60,000 (2019 – \$60,000) 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, 2020 (2019 – \$45,000) from a company that is controlled by the Founder of the Company.

Amounts due to related parties in trade and other payables at October 31, 2020, include amounts due to directors of \$89,412 (October 31, 2019 – \$64,295); an amount due to the CEO of the Company of \$nil (October 31, 2019 – \$1,985); and an amount due to the CFO of the Company of \$12,331 (October 31, 2019 – \$nil). The related party amounts included in trade and other payables are unsecured, non-interest bearing and due on demand.

### 9. INCOME TAXES

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

	2020	2019
	\$	\$
Income (loss) before income taxes	<b>(1,483,053)</b>	1,767,025
Combined basic Canadian federal and provincial income tax rate	<b>26.50%</b>	26.50%
(Recovery) provision for income taxes based on above rates	<b>(393,009)</b>	468,262
Adjustments to determine taxable income	<b>616</b>	(234)
Income tax (recovery) expense	<b>(392,393)</b>	468,028

In the year ended October 31, 2020, the Company recognized a deferred income tax recovery of \$2,000 (2019 – recovery of \$27,000) and, as a result, at October 31, 2020, the Company had net tax assets totaling \$55,000 (October 31, 2019 – \$53,000). This asset primarily relates to deferred tax assets from the deferral of capital cost allowance and the amount currently not deductible under the employee long term bonus plan. In the year ended October 31, 2020, the Company recognized a current income tax recovery of \$390,393 (2019 – expense of \$495,028) and, at October 31, 2020, the Company had an income taxes receivable balance totaling \$919,623 (October 31, 2019 – payable of \$429,241).

# NamSys Inc.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 9. INCOME TAXES (continued)

The following summarizes the components of deferred income tax assets:

	October 31, 2020	October 31, 2019
	\$	\$
<b>Deferred tax assets (liabilities)</b>		
Property and equipment	12,000	10,000
Employee long term bonus plan	43,000	43,000
<b>Net deferred tax assets</b>	<b>55,000</b>	<b>53,000</b>

### 10. INCOME PER SHARE

For the year ended October 31, 2020, the weighted average number of shares outstanding used to calculate basic and diluted income per share was 27,286,332 (2019 – 27,286,332) based on a net loss of \$1,090,660 (2019 – income of \$1,298,997).

### 11. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, trade and other receivables, short term investment, trade and other payables, and employee long term bonus plan liability.

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

#### 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, short term investments and trade receivables.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 11. FINANCIAL INSTRUMENTS (continued)

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 ECL, 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 ECL 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, and the short term investment is issued by, 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 currently has sales in both Canadian and United States dollars giving rise to exposure to market risks from changes in foreign exchange rates. For the year ended October 31, 2020, approximately 96% of the Company's sales revenues are denominated in U.S. dollars (2019 – 97%). 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 \$24,000 (2019 – \$41,000) increase (decrease) in operating income for the period. At October 31, 2020, cash balances included U.S. \$38,817 (October 31, 2019 – U.S. \$57,741), trade and other receivables included U.S. \$433,272 (October 31, 2019 – U.S. \$761,917), trade and other payables included U.S. \$136 (October 31, 2019 – U.S. \$136) and deferred revenue of \$201,101 (October 31, 2019 – \$112,651). Based on the U.S. denominated revenues and expenses in the period, 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.

#### 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. 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.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 11. FINANCIAL INSTRUMENTS (continued)

The carrying value of cash, trade receivables, short term investment, trade and other payables, and current portion of employee long term bonus plan liability 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.

### 12. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its share capital and deficit amounting to \$3,385,585 as at October 31, 2020 (October 31, 2019 – \$4,476,245). Its objective when managing capital is 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 capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As of October 31, 2020, the Company believes it is compliant with the policies of the TSXV.

### 13. COMMITMENTS AND CONTINGENCIES

Other than obligations recorded in liabilities in the balance sheet, the Company does not have any significant financial commitments as of October 31, 2020.

#### **Income, value added, withholding and other taxes**

The Company is subject to income, value added, withholding and other taxes in the United States and other foreign jurisdictions, the determination of which requires interpretation of complex laws and regulations. Significant judgment is therefore required in determining the Company's tax obligation. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Management has estimated their total U.S. sales tax liability to be \$135,000 and this amount has been recorded in trade and other payables as at October 31, 2020. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be charged to operations in the year that they are determined.

#### **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.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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### 14. COMPENSATION EXPENSE

Total employee compensation expense provided by the Company for salaries and statutory benefits during the year ended October 31, 2020, included \$1,254,126 (2019 – \$728,046) recognized in cost of sales, \$502,748 (2019 – \$233,780) recognized in selling expenses, \$118,754 (2019 – \$98,487) recognized in general and administration expenses, and \$2,981,313 (2019 – \$nil) recognized in employee long term bonus plan termination expense.

### 15. 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 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 COO entered into an employment agreement which included the following two clauses:

- i) In the event of the COO being terminated without cause or upon his death (either, a “valuation date”), the 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 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 COO under this Plan were being recognized as an expense over the vesting period from July 2, 2019 to December 31, 2021. Based on the closing share price at October 31, 2019, and the number of outstanding shares, the total value of the amount due to the COO at the end of the vesting period was estimated to be \$1,227,888. As at October 31, 2019, \$163,718 of this award had been recorded as a liability and expensed in the statements of comprehensive income. \$81,859 was expensed in cost of sales and \$81,859 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) has been held by the Company pending upon a decision by the recipients as to how they wish 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 CEO using the balance of the termination proceeds (\$987,425) and close the transaction before the end of February 2021. As at October 31, 2020, the Company has recorded a liability for the total value of \$3,949,697 payable in accordance with the termination of the Plan. In the year ended October 31, 2020, \$3,785,979 was expensed in the statements of comprehensive income. \$433,293 was expensed in cost of sales, \$355,273 in selling expenses, \$16,100 in general and administration expenses, and \$2,981,313 in employee long term bonus plan termination expense.

# NamSys Inc.

## NOTES TO FINANCIAL STATEMENTS

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 16. SHORT TERM INVESTMENTS

Short term investments are comprised of one term deposit of \$4,230,000 which matured on November 26, 2020, bearing interest at 1.7% per annum, and another term deposit of \$400,000 which matured on February 19, 2021, bearing interest at 1.02% per annum. As of February 24, 2021, neither term deposit has been renewed.

Total interest accrued for the year ended October 31, 2020 in respect of these deposits amounted to \$70,810 (2019 – \$39,233).

### 17. RIGHT-OF-USE ASSET

	Leased Premises
	\$
<b>At October 31, 2020</b>	
<b>Cost</b>	<b>139,980</b>
<b>Accumulated depreciation</b>	<b>(64,607)</b>
	<b>75,373</b>
Carrying value at November 1, 2019	-
Recognized on adoption of IFRS 16	139,980
Depreciation	(64,607)
<b>Carrying value at October 31, 2020</b>	<b>75,373</b>

Depreciation of the right-of-use asset is included in general and administration expense on the statement of comprehensive income.

#### Undiscounted cash flows

The Company has leased operating premises under a lease expiring December 31, 2021, with non-cancellable payments due as follows:

	\$
Not later than one year	67,500
Later than one year and not later than five years	11,250
<b>Total undiscounted lease obligation</b>	<b>78,750</b>

#### Finance cost on lease liability

Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in finance cost on lease liability in the statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. For the year ended October 31, 2020, the finance cost on lease liability was \$4,370 (2019 – \$nil).

### 18. SUBSEQUENT EVENT

See Note 15.