

## **Cencotech Inc.**

Unaudited Condensed Consolidated Interim Financial Statements  
Expressed in Canadian Dollars  
For the nine months ended July 31, 2016 and 2015

## **Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor, Flabbi & Associates LLP, has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established for a review of interim financial statements by an entity's auditors.

Cencotech Inc.,  
September 27, 2016

# Cencotech Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	July 31, 2016	October 31, 2015
(Expressed in Canadian dollars)		
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	720,213	354,666
Trade and other receivables (Note 3)	458,996	237,583
Prepaid expenses	38,793	35,107
	<u>1,218,002</u>	<u>627,356</u>
PLANT AND EQUIPMENT (Note 4)	12,827	9,799
DEFERRED INCOME TAXES (Note 12)	563,000	749,000
	<u>1,793,829</u>	<u>1,386,155</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables (Note 6)	124,108	128,183
Income taxes payable	45,000	-
Deferred revenue	308,711	135,706
	<u>477,819</u>	<u>263,889</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	5,627,519	5,627,519
Deficit	(4,701,109)	(5,284,453)
Equity attributable to owners of the Company	926,410	343,066
Non-controlling interest (Note 9)	389,600	779,200
	<u>1,316,010</u>	<u>1,122,266</u>
	<u>1,793,829</u>	<u>1,386,155</u>
Commitments (Note 16)		

Approved on behalf of the Board:

K. Barry Sparks (signed), Director

Derek H.L. Buntain (signed), Director

# Cencotech Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the nine months ended July 31, (Expressed in Canadian dollars)	2016	2015
	\$	\$
<b>REVENUE (Note 10)</b>	<b>1,768,086</b>	1,251,681
<b>COST OF SALES (Note 17)</b>	<b>475,128</b>	295,769
<b>GROSS PROFIT</b>	<b>1,292,958</b>	955,912
<b>EXPENSES</b>		
Selling (Notes 11 and 17)	155,183	134,677
General and administration (Notes 4, 5, 11, 16 and 17)	286,306	245,873
	<b>441,489</b>	380,550
<b>OPERATING INCOME</b>	<b>851,469</b>	575,362
<b>Other expenses (income)</b>		
Interest on secured debt (Note 7)	-	5,951
Loss (gain) on foreign exchange	(9,275)	(80,111)
	<b>(9,275)</b>	(74,160)
<b>INCOME BEFORE INCOME TAXES</b>	<b>860,744</b>	649,522
<b>INCOME TAX (EXPENSE) RECOVERY (Note 12)</b>		
Deferred taxes	(186,000)	-
Current taxes	(45,000)	-
	<b>(231,000)</b>	-
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b>629,744</b>	649,522
<b>NET INCOME AND COMPREHENSIVE INCOME</b>		
Owners of the Company	593,744	593,358
Non-controlling interest	36,000	56,164
	<b>629,744</b>	649,522
<b>BASIC AND DILUTED INCOME PER SHARE ATTRIBUTED TO OWNERS OF THE COMPANY (Note 13)</b>	<b>0.02</b>	0.02

# Cencotech Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the three months ended July 31, (Expressed in Canadian dollars)	2016	2015
	\$	\$
<b>REVENUE (Note 10)</b>	<b>711,778</b>	452,487
<b>COST OF SALES (Note 17)</b>	<b>153,338</b>	85,622
<b>GROSS PROFIT</b>	<b>558,440</b>	366,865
<b>EXPENSES</b>		
Selling (Notes 11 and 17)	49,764	43,214
General and administration (Notes 4, 5, 11, 16 and 17)	85,290	85,271
	<b>135,054</b>	128,485
<b>OPERATING INCOME (LOSS)</b>	<b>423,386</b>	238,380
<b>Other expenses (income)</b>		
Interest on secured debt (Note 7)	-	-
Loss (gain) on foreign exchange	(20,742)	(22,831)
	<b>(20,742)</b>	(22,831)
<b>INCOME BEFORE INCOME TAXES</b>	<b>444,128</b>	261,211
<b>INCOME TAX (EXPENSE) RECOVERY (Note 12)</b>		
Deferred taxes	(75,597)	-
Current taxes	(45,000)	-
	<b>(120,597)</b>	-
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b>323,531</b>	261,211
<b>NET INCOME AND COMPREHENSIVE INCOME</b>		
Owners of the Company	315,531	245,211
Non-controlling interest	8,000	16,000
	<b>323,531</b>	261,211
<b>BASIC AND DILUTED INCOME PER SHARE ATTRIBUTED TO OWNERS OF THE COMPANY (Note 13)</b>	<b>0.01</b>	0.01

# Cencotech Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

	Share Capital Number of Shares	Share Capital \$	Deficit \$	Equity Attributable to Owners of the Company \$	Equity Attributable to Non- Controlling Interests \$	Total \$
(Expressed in Canadian dollars)						
<b>Balance as at October 31, 2014</b>	27,286,332	5,627,519	(6,141,353)	(513,834)	974,000	460,166
Comprehensive income for the year		-	593,358	593,358	56,164	649,522
Dividends on First Preference, Series V Shares by NamSys Inc.		-	-	-	(56,164)	(56,164)
Redemption of First Preference, Series V Shares by NamSys Inc.		-	-	-	(200,000)	(200,000)
<b>Balance as at July 31, 2015</b>	27,286,332	5,627,519	(5,547,995)	79,524	774,000	853,524
<b>Balance as at October 31, 2015</b>	27,286,332	5,627,519	(5,284,453)	343,066	779,200	1,122,266
Comprehensive income for the year		-	593,744	593,744	36,000	629,744
Dividends on First Preference, Series V Shares by NamSys Inc.		-	-	-	(36,000)	(36,000)
Redemption of First Preference, Series V Shares by NamSys Inc.		-	-	-	(400,000)	(400,000)
Premium on redemption of share capital		-	(10,400)	(10,400)	10,400	-
<b>Balance as at July 31, 2016</b>	27,286,332	5,627,519	(4,701,109)	926,410	389,600	1,316,010

# Cencotech Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the nine months ended July 31, (Expressed in Canadian dollars)	2016	2015
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Comprehensive income	629,744	649,522
Non-cash items:		
Depreciation and amortization (Notes 4 and 5)	1,799	7,186
Deferred income tax expense (recovery) (Note 12)	186,000	-
	<u>817,543</u>	<u>656,708</u>
Changes in:		
Trade and other receivables (Note 3)	(221,413)	(55,905)
Prepaid expenses	(3,686)	(18,735)
Trade and other payables (Note 6)	(4,075)	(219,741)
Income taxes payable	45,000	-
Deferred revenue	173,005	119,850
	<u>806,374</u>	<u>482,177</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of plant and equipment (Note 4)	(4,827)	(1,436)
Purchase of intellectual assets (Note 5)	-	(4,332)
	<u>(4,827)</u>	<u>(5,768)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid on First Preference, Series V Shares by NamSys Inc. (Note 9)	(36,000)	(56,164)
Redemption of First Preference, Series V Shares by NamSys Inc. (Note 9)	(400,000)	(200,000)
Decrease in secured debt (Note 7)	-	(150,000)
	<u>(436,000)</u>	<u>(406,164)</u>
<b>NET INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	<b>365,547</b>	<b>70,245</b>
<b>CASH, beginning of period</b>	<b>354,666</b>	<b>206,128</b>
<b>CASH, end of period</b>	<b>720,213</b>	<b>276,373</b>
<b>Supplemental cash flow information:</b>		
Interest paid (included in operating activities)	-	5,951

# Cencotech Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the three months ended July 31, (Expressed in Canadian dollars)	2016	2015
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Comprehensive income (loss)	323,531	261,211
Non-cash items:		
Depreciation and amortization (Notes 4 and 5)	644	2,455
Deferred income tax expense (recovery) (Note 12)	75,597	-
	<u>399,772</u>	<u>263,666</u>
Changes in:		
Trade and other receivables (Note 3)	(36,515)	(124,791)
Prepaid expenses	(15,158)	(6,060)
Trade and other payables (Note 6)	24,318	(2,334)
Income taxes payable	45,000	-
Deferred revenue	(163,294)	(125,811)
	<u>254,123</u>	<u>4,670</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of plant and equipment (Note 4)	(1,332)	-
Purchase of intellectual assets (Note 5)	-	-
	<u>(1,332)</u>	<u>-</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid on First Preference, Series V Shares by NamSys Inc. (Note 9)	(8,000)	(16,000)
Redemption of First Preference, Series V Shares by NamSys Inc. (Note 9)	-	(200,000)
Decrease in secured debt (Note 7)	-	-
	<u>(8,000)</u>	<u>(216,000)</u>
<b>NET INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	<b>244,791</b>	<b>(211,330)</b>
<b>CASH, beginning of period</b>	<b>475,422</b>	<b>487,703</b>
<b>CASH, end of period</b>	<b>720,213</b>	<b>276,373</b>
<b>Supplemental cash flow information:</b>		
Interest paid (included in operating activities)	-	-

# Cencotech Inc.

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## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS

Cencotech Inc. ("Cencotech" or the "Company") was formed under the provisions of the Business Corporations Act of Alberta on January 29, 1997 and continued under the provisions of the Business Corporations Act of Ontario on October 31, 1999. The Company is domiciled in Canada and the address of the Company's registered office is 141 Adelaide Street West, Suite 1600, Toronto, Ontario, M5H 3L5.

The Company was formed to acquire and manage emerging high technology enterprises with sound business solutions for their customers. The Company's subsidiary, NamSys Inc. ("NamSys"), now exclusively provides software solutions for currency management and processing for the banking and merchant industries principally in North America.

The Company is listed on the TSX Venture Exchange ("TSX Venture") under the symbol "CTZ".

These condensed consolidated interim financial statements for the nine months ended July 31, 2016 (including comparatives) were approved and authorized for issue by the board of directors on September 27, 2016.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### **Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and do not include all of the information required for full annual consolidated financial statements.

#### **Basis of presentation and measurement**

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

All significant intercompany transactions and balances have been eliminated.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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).

#### Use of Estimates and Judgments

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

The accompanying condensed consolidated interim 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 condensed consolidated interim financial statements is included in the following notes:

- Note 3 – determination of the allowance for doubtful accounts
- Note 4 – estimated useful life and residual value of plant and equipment
- Note 5 – estimate useful life of intellectual assets
- Note 12 – determination of probable future taxable income
- Note 18 – determination of probable change in control event occurring

#### *Significant judgments*

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

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

- Note 2 – functional currency of the company and its subsidiary
- Note 5 – impairment assessment of intellectual assets
- Note 12 – recoverability of deferred tax assets

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments

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

The Company has made the following classifications:

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

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

#### *Fair value hierarchy*

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

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

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

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

Cash is classified as Level 1.

#### Impairment of financial assets

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

#### Cash

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

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Plant and equipment

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

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

Office equipment	20% declining balance
Showroom equipment	3 years straight-line
Leasehold improvements	Straight-line over the term of the lease.

#### Intellectual assets

Intellectual assets, which have finite lives, are recorded at cost less accumulated amortization and accumulated impairment losses, and are amortized over their estimated useful lives as follows:

Trademarks and patents	5 years straight-line
Recognition technology – hardware	30% declining balance

#### Impairment of non-financial assets

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

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

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

#### Provisions

A provision is recognized in the consolidated balance sheets 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.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Share issuance costs

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

#### Revenue recognition and deferred revenue

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

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

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

#### Research and software development costs

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

#### Income taxes

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

Income tax expense is recognized in net income (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 consolidated balance sheets 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.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### Earnings per share

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

#### Adoption of accounting standards

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

#### New standards and pronouncements

Certain new standards and pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after October 31, 2016. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the table below. The following pronouncements and standards have not yet been adopted and are being evaluated to determine the resultant impact on the Company:

##### IFRS 9 – Financial Instruments

During 2014, the IASB issued the complete version of IFRS 9. Under the finalized guidance, IFRS 9 specifies that financial assets be classified into one of three categories: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss or financial assets measured at fair value through other comprehensive income. IFRS 9 introduces changes to measuring an entity's own credit risk in the valuation of financial liabilities. The final standard also introduces a new "expected credit loss" model for calculating impairment, and new general hedge accounting requirements that align more closely with an entity's risk management model. IFRS 9 will be mandatorily effective for the Company's fiscal year beginning on November 1, 2018, and early adoption is permitted. The Company will continue to monitor developments and assess the financial impact of this new standard.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

During 2014, the IASB established principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based model for revenue recognition to be applied to all contracts with customers. IFRS 15 will be effective for the Company's fiscal year beginning November 1, 2018, with earlier adoption permitted.

#### IFRS 16 – Leases

In 2016, the IASB issued its new leasing standard. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as previously required by IAS 17. Instead, it introduces a single lease accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and to depreciate the lease assets separately from interest on the lease liabilities on the income statement. IFRS 16 will be effective for the Company's fiscal year beginning November 1, 2019, with earlier adoption permitted if the entity also adopts IFRS15.

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

### 3. TRADE AND OTHER RECEIVABLES

As described in Note 14, 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 July 31, 2016 approximately 74% of the trade receivable balances are owed from three customers (October 31, 2015 – 66% 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.

## Cencotech Inc.

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

#### 3. TRADE AND OTHER RECEIVABLES (continued)

As at July 31, 2016, and October 31, 2015, the Company believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk, indicated as follows:

	July 31, 2016	October 31, 2015
	\$	\$
Neither impaired nor past due	254,730	89,444
Not impaired and past due in the following periods:		
31 to 60 days	97,447	104,657
61 to 90 days	33,552	2,261
Over 90 days	54,710	37,171
Impaired	-	-
Allowance for doubtful accounts	-	-
Trade receivables	440,439	233,534
Other receivables	18,557	4,050
Total accounts receivable	458,996	237,583

There has been no movement in the allowance for doubtful accounts since October 31, 2012, except for removing the allowance in the first quarter of 2013 concurrent with writing off the associated receivables.

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.

## Cencotech Inc.

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

#### 4. PLANT AND EQUIPMENT

	Office Equipment	Showroom Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
<b>At July 31, 2016</b>				
Cost	175,942	3,116	182,920	361,978
Accumulated depreciation	(163,115)	(3,116)	(182,920)	(349,151)
	12,827	-	-	12,827
Carrying value at November 1, 2015	9,799	-	-	9,799
Additions	4,827	-	-	4,827
Depreciation	(1,799)	-	-	(1,799)
<b>Carrying value at July 31, 2016</b>	<b>12,827</b>	<b>-</b>	<b>-</b>	<b>12,827</b>
	Office Equipment	Showroom Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
<b>At October 31, 2015</b>				
Cost	171,116	3,116	182,920	357,152
Accumulated depreciation	(161,317)	(3,116)	(182,920)	(347,353)
	9,799	-	-	9,799
Carrying value at November 1, 2014	9,288	-	-	9,288
Additions	2,632	-	-	2,632
Depreciation	(2,121)	-	-	(2,121)
<b>Carrying value at October 31, 2015</b>	<b>9,799</b>	<b>-</b>	<b>-</b>	<b>9,799</b>

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

# Cencotech Inc.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

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### 5. INTELLECTUAL ASSETS

	Trademarks and Patents	Recognition Technology	Total
	\$	\$	\$
<b>At July 31, 2016</b>			
Cost	-	12,004	12,004
Accumulated amortization	-	(12,004)	(12,004)
	-	-	-
Carrying value at November 1, 2015	-	-	-
Additions	-	-	-
Amortization	-	-	-
<b>Carrying value at July 31, 2016</b>	-	-	-
	Trademarks and Patents	Recognition Technology	Total
	\$	\$	\$
<b>At October 31, 2015</b>			
Cost	-	12,004	12,004
Accumulated amortization	-	(12,004)	(12,004)
	-	-	-
Carrying value at November 1, 2014	21,822	-	21,822
Additions	5,313	-	5,313
Write-offs (cost)	(40,203)	-	(40,203)
Write-offs (accumulated amortization)	20,775	-	20,775
Amortization	(7,707)	-	(7,707)
<b>Carrying value at October 31, 2015</b>	-	-	-

In fiscal 2015, the Company wrote-off intellectual assets, with a carrying value of \$19,428, associated with a technology for which patent protection is no longer being pursued.

Amortization and writedowns of intellectual assets is included in general and administration expense on the consolidated statements of comprehensive income.

Additions to intellectual assets are internally developed by the Company.

## Cencotech Inc.

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

#### 6. TRADE AND OTHER PAYABLES

	July 31, 2016	October 31, 2015
	\$	\$
Trade payables	29,637	32,812
Related party payables (Note 11(b))	2,100	-
Other payables	92,371	95,371
	<b>124,108</b>	<b>128,183</b>

#### 7. SECURED DEBT

A company controlled by the President of Cencotech ("the Secured Lender") had a first secured loan agreement ("the Credit Facility") with the Company's subsidiary NamSys. The Credit Facility bore interest at the rate of 8% per annum (10% before November 1, 2014), which was its stated rate, payable monthly, and was secured by a general security agreement constituting first ranking security interest in all property of the Company's subsidiary and a postponement and assignment of claim signed by the Company.

The maturity date and maximum principal amount of the facility were amended on a number of occasions between fiscal 2003 and 2014. The changes to the Credit Facility did not involve additional consideration.

On October 31, 2014, concurrent with settlement of a final Payment Agreement with the holder of the debenture of the Company, the Secured Lender agreed, with effect from October 31, 2014, to extend the maturity date of the Credit Facility to October 31, 2015 and to decrease the maximum principal amount of the facility from \$450,000 to \$150,000 and the interest rate from 10% to 8% per annum, payable monthly in arrears. The changes to the Credit Facility did not involve additional consideration.

On April 30, 2015, the Company paid \$150,000 to the Secured Lender reducing the outstanding balance of the Credit Facility to \$nil. The Credit Facility was not renewed upon its expiry, October 31, 2015.

The loan negotiations with the related party were undertaken by unrelated members of the parent Company's Board of Directors, expressly established as an ad hoc committee for the purpose of acquiring the necessary financing for the Company.

# Cencotech Inc.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

### 8. SHARE CAPITAL

#### Authorized

Unlimited number of common shares  
Unlimited number of preferred shares

#### Issued and outstanding

Issued common shares of the Company are as follows:

	Number of Shares	Stated Capital \$
<b>Balance, October 31, 2014, 2015 and April 30, 2016</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 July 31, 2016 and October 31, 2015, no options are outstanding under the plan.

### 9. SUBSIDIARIES AND NON-CONTROLLING INTERESTS

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

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

NamSys has indicated its intension to redeem at least 2,000 shares per year starting in the year ending October 31, 2015. However, the actual redemption is at the discretion of the board of directors of NamSys.

As part of the financing, a company owned by the President of Cencotech provided a guarantee of the dividends and redemption amount to subscribers of \$400,000 of the preference shares. If NamSys is unable to pay the dividends or redeem the preference shares, the guarantor will pay the redemption price and unpaid dividends. This guarantee will remain in effect as long as the Series V preference shares remain outstanding.

# Cencotech Inc.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

### 9. SUBSIDIARIES AND NON-CONTROLLING INTERESTS (continued)

Prior to the Series V financing described above, Cencotech owned all of the issued and outstanding common and preference shares of NamSys. Cencotech retains 100% of the voting rights of NamSys.

In the nine months ended July 31, 2016, the earnings attributable to the non-controlling interest and the dividends paid were \$36,000 (2015 – \$56,164).

On May 1, 2015, NamSys redeemed 2,000 Series V preference shares for a total of \$200,000. On both February 1 and April 29, 2016, NamSys redeemed 2,000 Series V preference shares for a total of \$400,000, leaving a balance of 4,000 shares outstanding.

### 10. SEGMENT INFORMATION

#### Sales to major customers

In the nine months ended July 31, 2016, three customers accounted for 27.6%, 10.7% and 9.8% respectively of the Company's consolidated revenues (2015 – 29.2%, 9.2% and 8.4% respectively).

#### Revenue breakdown

In the nine months ended July 31, 2016, the Company's revenue was derived 100% from software related sales and services (2015 – 100%).

#### Geographic Information

In the nine months ended July 31, 2016, the Company recognized revenues of \$1,552,811 (2015 – \$1,178,315) in sales to U.S. customers and \$215,275 (2015 – \$73,366) in sales to customers in Canada.

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

### 11. 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 nine months ended July 31, 2016, the Company expensed \$236,000 (2015 - \$203,000) in remuneration to directors and other members of key management personnel.

Other than the adoption of the employee long-term bonus plan as described in Note 18, 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.

# Cencotech Inc.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

### 11. RELATED PARTY TRANSACTIONS (continued)

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

Rent and administration expenses included in general and administration expenses in the amount of \$28,170 were incurred in the nine months ended July 31, 2016 (2015 - \$29,380) from a company that is partially owned by the President of the Company. In addition, consulting expenses for sales and marketing included in selling expenses in the amount of \$33,750 were incurred in the nine months ended July 31, 2016 (2015 - \$45,000) from a company that is controlled by the Vice Chairman and Founder of NamSys.

Amounts due to related parties in trade and other payables at July 31, 2016 include amounts due to directors of \$2,100 (October 31, 2015 – \$nil); and amounts due to the President of the Company of \$nil (October 31, 2015 – \$nil). The related party amounts included in trade and other payables are unsecured and non-interest bearing.

### 12. INCOME TAXES

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

	2016	2015
	\$	\$
Combined basic Canadian federal and provincial income tax rate	<b>26.50%</b>	26.50%
Provision (recovery) for income taxes based on above rates	<b>228,097</b>	172,123
Adjustments to determine taxable income	<b>2,903</b>	33,877
Change in unrecognized deferred tax assets	-	(206,000)
Income tax (recovery) expense	<b>231,000</b>	-

In the nine months ended July 31, 2016, the Company recognized a deferred income tax expense of \$186,000 and, as a result, at July 31, 2016, the Company had tax assets totaling \$563,000 (October 31, 2015 – \$749,000). This asset relates to deferred tax assets that arose from past operating losses, unclaimed investment tax credits and deferral of capital cost allowance. The amount of deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a high degree of measurement uncertainty. In the nine months ended July 31, 2016, the Company recognized a current income tax expense of \$45,000 and, as a result, at July 31, 2016, the Company had an income taxes payable balance totaling \$45,000 (October 31, 2015 – \$nil).

In the past management concluded that estimate of future taxable income did not meet the probability requirement to recognize any deferred tax assets given the liquidity risks that created a going concern uncertainty. The repayment of the debenture in fiscal 2014, reduction of the secured debt in fiscal 2015 and issuance of the NamSys preference shares (see non-controlling interest), along with recent financial performance resulted in a change in this estimate.

The key assumption in this estimate is the amount of future taxable income that management has concluded is probable to occur. The repayment of the debenture and reduction in the secured debt will reduce interest expense going forward. The Company and its subsidiary had generated net taxable income in four of the last five years. These facts, along with management's beliefs regarding future periods have all factored into the estimate of deferred tax assets that are probable of recovery.

# Cencotech Inc.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

### 12. INCOME TAXES (continued)

The following summarizes the components of deferred income tax assets:

	July 31, 2016	October 31, 2015
	\$	\$
<b>Deferred tax assets</b>		
Loss carry-forwards	373,000	403,000
Investment tax credits	127,000	186,000
Plant and equipment, and intellectual assets	53,000	149,000
Other	10,000	11,000
	<b>563,000</b>	<b>749,000</b>
Unrecognized deferred tax assets	-	-
	<b>563,000</b>	<b>749,000</b>

### 13. INCOME (LOSS) PER SHARE

For the nine months ended July 31, 2016, the weighted average number of shares outstanding used to calculate basic and diluted income (loss) per share was 27,286,332 (2015 – 27,286,332).

### 14. FINANCIAL INSTRUMENTS

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

Other than repayment of all material interest bearing obligations, there were no significant changes in the risks discussed below during the years 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:

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

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### 14. FINANCIAL INSTRUMENTS (continued)

#### Credit risk

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

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

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

#### Market risk

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

The Company sells to both Canadian and American clients giving rise to exposure to market risks from changes in foreign exchange rates. For the nine months ended July 31, 2016, approximately 88% of the Company's sales revenues are denominated in U.S. dollars (2015 – 94%). 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 \$12,000 (2015 - \$11,000) increase (decrease) in operating income for the period. At July 31, 2016 cash balances included U.S. \$29,882 (October 31, 2015 – U.S. \$16,734), trade and other receivables included U.S. \$203,841 (October 31, 2015 – U.S. \$173,176) and trade and other payables included U.S. \$406 (October 31, 2015 – U.S. \$676). 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. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

# Cencotech Inc.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

### 14. FINANCIAL INSTRUMENTS (continued)

#### Fair Value

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

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

### 15. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its share capital, deficit and non-controlling interest amounting to \$1,316,010 as at July 31, 2016 (October 31, 2015 – \$1,122,266). Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

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

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Company's overall strategy with respect to management of capital remains unchanged from the year ended October 31, 2015.

### 16. COMMITMENTS

The Company has leased their operating premises until November 30, 2018, with non-cancellable payments due as follows:

	\$
Not later than one year	67,500
Later than one year and not later than five years	90,000
<u>Total commitments</u>	<u>157,500</u>

During the nine months ended July 31, 2016, the Company recorded an expense for its operating lease in the amount of \$50,625 (2015 - \$50,625) in general and administration expenses in the consolidated statements of comprehensive income.

### 17. COMPENSATION EXPENSE

Total employee compensation expense provided by the Company for salaries and statutory benefits during the nine months ended July 31, 2016, included \$350,736 (2015 - \$246,169) recognized in cost of sales, \$79,620 (2015 - \$57,872) recognized in selling expenses, and \$62,143 (2015 - \$25,975) recognized in general and administration expenses.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended July 31, 2016 and 2015

(Expressed in Canadian Dollars)

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### 18. EMPLOYEE LONG TERM BONUS PLAN

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

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

On the occurrence of one of the above noted change of control events, the Company or its subsidiary NamSys will cause an aggregate of 15% of the transaction consideration to be payable to the employees and officers, as determined by the Directors, at that time. As of the balance sheet date of July 31, 2016, the Company does not envision a change of control event occurring within the foreseeable future.