

NamSys Inc.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED JANUARY 31, 2019

The following is a discussion and analysis of the results of operations and financial condition of the Company for the three months ended January 31, 2019 and 2018 along with certain factors that may affect the Company's prospective financial condition and results of operations.

Forward-Looking Statements

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

Overview

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

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

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

Quarterly Financial Data

The table below presents selected financial data of the Company for each of the eight fiscal quarters ended January 31, 2019:

	Fiscal quarter end							
	Jan. 31	Oct. 31	Jul. 31	Apr. 30	Jan. 31	Oct. 31	Jul. 31	Apr. 30
	2019	2018	2018	2018	2018	2017	2017	2017
	(in thousands of dollars)							
Revenue	902	853	839	808	742	709	754	752
Gross profit	613	579	580	566	514	469	557	518
Income after tax	302	280	297	359	211	203	224	285
Comprehensive income per share:								
Basic	0.011	0.010	0.011	0.013	0.008	0.007	0.008	0.010
Diluted	0.011	0.010	0.011	0.013	0.008	0.007	0.008	0.010

The sales cycle for the Company's licensable products tends to be protracted and the unit selling prices of licenses are relatively high. These factors together with a relatively low number of licensing transactions historically lead to revenue fluctuations quarter to quarter and year to year. The SaaS offering of these products has changed these dynamics. Customer feedback continues to be positive and the Company believes the proven value of its Currency Controller and SaaS products, as described above, will be realized through fulfillment of customer demand in 2019 and beyond.

Results of Operations

Three months ended January 31, 2019 compared to Three months ended January 31, 2018

Revenue

	2019	2018	Change	Change %
	\$	\$	\$	
Hosted services, maintenance and product support	765,325	649,255	116,070	17.9%
Licences	137,085	93,233	43,852	47.0%
Professional services	-	-	-	-
	902,410	742,488	159,922	21.5%

Revenues in the three months ended January 31, 2019, increased in comparison to the same period in the prior year. The Company's total sales for the three months ended January 31, 2019, were \$902,410 as compared to \$742,488 for the corresponding period in 2018, an increase of \$159,922 or 21.5%. As the Company continues to expand upon the "software-as-a-service" model, the sales cycle is shortening and the service is paid monthly.

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

Recurring revenue, including maintenance, product support and hosted services (SaaS) revenue for the three months ended January 31, 2019, represented \$765,235 of the total revenue compared to \$649,255 for the corresponding three months the previous year, an increase of \$116,070 or 17.9%. Recurring revenue represented 84.8% of total sales revenue in the three months ended January 31, 2019, as compared to 87.4% in the same three months of fiscal 2018.

Currency Controller license fees for the three months ended January 31, 2019, were \$110,702 compared to \$88,150 for the 2018 comparative period. Cirreon license fees for the three months ended January 31, 2019, were \$26,383 compared to \$5,083 for the 2018 comparative period.

Cost of Goods Sold and Gross Profit

Three months ended January 31, 2019 compared to Three months ended January 31, 2018

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

Cost of goods sold for the three months ended January 31, 2019, was \$289,664 compared to \$229,004 in the corresponding period in 2018. The overall Gross Profit achieved in the first quarter of 2019 was \$612,746 or 67.9%, compared to Gross Profit for the corresponding period in 2018 of \$513,484 or 69.2%, a decrease in Gross Margin percentage of 1.3 percentage points.

Selling Expenses

Three months ended January 31, 2019 compared to Three months ended January 31, 2018

Selling expenses are comprised of direct selling and marketing expenses and the salaries of employees whose principal function is sales and marketing. Selling expenses for the three months ended January 31, 2019, totaled \$73,942, an increase of \$25,425 or 52.4% from \$48,517 in the corresponding period of 2018. This increase is mostly because of rebranding and website redevelopment expenses of \$18,600 and trade show attendance costs of \$8,594 in the current quarter, net of various other selling expenses declining by \$1,769 in the period. Selling expense was 8.2% of revenue in the first quarter of 2019 as compared to 6.5% in the 2018 same quarter, recognizing that revenues in the 2019 period were up \$159,922 or 21.5% from the 2018 comparative period.

General and Administration Expenses

Three months ended January 31, 2019 compared to Three months ended January 31, 2018

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

G&A expense totaled \$135,119 in the three months ended January 31, 2019, as compared to \$125,774 in the 2018 comparative period, an increase of \$9,345 or 7.4%.

Various G&A costs increased, in aggregate, period-over-period resulting in the total expense in the quarter ended January 31, 2019, being higher by \$9,345 versus the comparative quarter.

Depreciation for the three months ended January 31, 2019, of \$1,350 increased by \$236 or 21.2% from \$1,114 in the same period of 2018. The level of amortization is a result of the Company incurring only minor expenditures for property and equipment over the last several years.

With the increase in sales, as noted above, and the increase in G&A expenses, the G&A expense ratio as compared to revenue was 15.0% in the first quarter of 2019 as compared to 16.9% in the 2018 first quarter.

Financing and Other Costs

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

Gain (loss) on foreign exchange

The Company recognized a loss on foreign exchange of \$4,367 in the first quarter of 2019, whereas a loss of \$53,833 was experienced in the comparative quarter of 2018. This results in an increase in income of \$49,466 in 2019 as compared to the 2018 same period. The loss on foreign exchange recognized in the quarter ended January 31, 2019, is a result of both the large number of clients that are domiciled in the USA, which are invoiced for services in US dollars, along with the appreciation in the Canadian dollar vis-à-vis the US dollar occurring during the quarter. The Company invoices its foreign customers in US dollars and recognizes a foreign exchange gain (loss) when the Canadian dollar amount of the receivable at period end, or the amount received in the period, is greater (less) than at the time of invoicing.

Provision for Income Taxes

The basic rate of 26.50% was applied to the pre-tax income in the 2019 first quarter (2018 – 26.50%), resulting in a deferred income tax expense of \$6,000 (2018 – \$74,000) and current income tax expense of \$100,408 (2018 – \$nil).

As a result of recognizing a deferred income tax expense of \$6,000 in the first quarter of 2019, at January 31, 2019, the Company had tax assets totaling \$20,000 (October 31, 2018 – \$26,000). This asset primarily relates to deferred tax assets from deferral of capital cost allowance.

Related Party Transactions

The following summarizes the Company's related party transactions:

- a) Rent and administration expenses in the amount of \$11,400 (2018 - \$11,400) and management fees of \$15,000 (2018 - \$15,000) were incurred in the three months ended January 31, 2019, from a company that is partially owned by the CEO of the Company. In addition, consulting expenses for sales and marketing in the amount of \$11,250 were incurred in the three months ended January 31, 2019 (2018 - \$11,250) from a company that is controlled by the Founder of the Company.
- b) Included in trade and other payables at January 31, 2019, are amounts due to directors of \$18,900 (October 31, 2018 – \$nil). The related party amounts included in trade and other payables are unsecured and non-interest bearing.

Comprehensive Income and Income Per Share

As a result of the factors discussed above, the comprehensive income after tax for the three months ended January 31, 2019 was \$302,225 as compared to income of \$211,360 in the three months ended January 31, 2018.

Three months ended January 31,

	2019	2018
	\$	\$
Comprehensive income	302,225	211,360
Income per share:		
Basic	0.01	0.01
Diluted	0.01	0.01

For the three months ended January 31, 2019, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2018 – 27,286,332).

Liquidity and Capital Resources

General

During the most recent five year period ended October 31, 2018, the Company funded all capital expenditures, operations and debt reduction from a combination of cash flow from operations, the sale of preferred shares, and the renegotiation of its secured debt and debenture.

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

Cash Flow from Operations

The Company had working capital of \$4,023,928 at January 31, 2019, compared to working capital of \$3,227,578 at October 31, 2018. Excluded from the January 31, 2019, working capital calculations are: prepaid expenses of \$71,187 (October 31, 2018 – \$71,482); and deferred revenue of \$660,672 (October 31, 2018 – \$172,140).

For the three months ended January 31, 2019, the Company had cash flow from operations of \$459,727 as compared to cash flow from operations of \$159,825 in the three months ended January 31, 2018. The increase in cash flow from operations is primarily from the higher achievement of profitable results, along with the change in trade and other receivables, and income taxes payable, in the first quarter of 2019 versus the 2018 period.

BALANCE SHEET

Short term investment

The short term investment is a term deposit maturing on November 8, 2019, bearing interest at 1.6% per annum. At January 31, 2019, the principal amount of the instrument is

\$2,500,000 (October 31, 2018 - \$nil) and the accrued interest is \$9,315 (October 31, 2018 - \$nil).

Trade and Other Receivables

At January 31, 2019, the company had trade and other receivables of \$991,096 (October 31, 2018 - \$506,831). The amount of receivables over 90 days past due, at January 31, 2019, is \$67,726 (October 31, 2018 - \$67,370). Based on subsequent collections and a review of outstanding balances, the Company believes no provision for doubtful accounts is required at this time.

Plant and Equipment

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

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

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

Deferred Income Tax Asset

In the three months ended January 31, 2019, the Company recognized a deferred income tax expense of \$6,000 and, as a result, at January 31, 2019, the Company had tax assets totaling \$20,000 (October 31, 2018 – \$26,000). The amount of deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty.

Financing Agreements

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

Contractual Obligations

A summary of the Company's contractual obligations, at January 31, 2019:

	Total	Less than 1 year	1 to 5 years
	\$	\$	\$
Trade and other payables	271,948	271,948	-
Income taxes payable	97,723	97,723	-
Premises lease	196,875	67,500	129,375
	566,546	437,171	129,375

Capital Expenditures

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology, property, plant and equipment purchases and capital investments into intellectual property. During the first quarter of 2019, capital expenditures were \$2,052 as compared to \$nil in the first quarter of 2018.

Summary of Significant Accounting Policy Choices or Changes under IFRS

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

Foreign currency translation

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

Plant and equipment

The Company uses an historic cost model in reporting its plant and equipment.

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

Income taxes

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

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

Adoption of Accounting Standards

On November 1, 2018, the Company adopted IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. There was no material change, as a result of the adoption of these standards, on current or prior periods.

Recent Accounting Pronouncements

Certain new standards and pronouncements were issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning on or after October 31, 2019. 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 16 – Leases

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

At the present time, the Company does not believe any other future changes to IFRS will have a direct impact on the Company based on its current operations. If the Company determines that any amendments or proposed changes will impact the financial statements, the Company will disclose the details of those updated standards at that time.

Additional Information

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

Outstanding Share Data

Summary of securities issued and outstanding as at January 31, 2019

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

No common shares are reserved for issuance with respect to Options granted under the Company’s stock option plan as at January 31, 2019.

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 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 the Company are sold, or otherwise transferred, to an arm's length third party; or
- ii) 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 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 January 31, 2019, the Company does not envision a change of control event occurring within the foreseeable future.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting for the issuer. They are assisted in this responsibility by the Management team. The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures and the design of internal controls at January 31, 2019, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company would have been known to them. Through the evaluation of the design of its internal controls the Company has identified an internal control weakness in the financial reporting process, specifically a lack of segregation of duties in the accounting process. This situation is common to many small companies. In order to mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight, and interim and annual financial statements are reviewed by the Company's board. While the deficiency in segregation of duties could lead to a material misstatement in the financial statements, management believes that its supervisory and review controls are sufficient to prevent a material misstatement from occurring.

Critical Accounting Estimates

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

Investor Relations

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

Legal Proceedings

There are no outstanding legal proceedings.

Environmental Issues

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

Risk Factors

Dependence on Management

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

Seasonality and Inflation

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

Market Risks

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

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

Market Condition Risks

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

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

Financing Risk

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

Competition Risk

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

Product Performance and Availability Risk

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

Market for Securities

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

Toronto, Ontario
March 20, 2019