# NamSys Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED APRIL 30, 2020

The following is a discussion and analysis of the results of operations and financial condition of the Company for the six months ended April 30, 2020 and 2019 along with certain factors that may affect the Company's prospective financial condition and results of operations.

## Forward-Looking Statements

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

## Overview

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

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

The Company's cloud based ("SaaS") products are labelled as "Cirreon" and 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 April 30, 2020:

| | Fiscal quarter end | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Apr. 30 2020 | Jan. 31 2020 | Oct. 31 2019 | Jul. 31 2019 | Apr. 30 2019 | Jan. 31 2019 | Oct. 31 2018 | Jul. 31 2018 |
| | (in thousands of dollars) | | | | | | | |
| Revenue | 1,190 | 1,124 | 1,108 | 1,070 | 1,039 | 902 | 853 | 839 |
| Gross profit | 800 | 612 | 654 | 733 | 751 | 613 | 579 | 580 |
| Income after tax | 471 | 196 | 256 | 338 | 403 | 302 | 280 | 297 |
| Comprehensive income per share: | | | | | | | | |
| Basic | 0.017 | 0.007 | 0.009 | 0.012 | 0.015 | 0.011 | 0.010 | 0.011 |
| Diluted | 0.017 | 0.007 | 0.009 | 0.012 | 0.015 | 0.011 | 0.010 | 0.011 |

## Results of Operations

### *Three months ended April 30, 2020 compared to Three months ended April 30, 2019*

***Revenue***

| | 2020 | 2019 | Change | Change % |
|---|---|---|---|---|
| | $ | $ | $ | |
| Hosted services, maintenance and product support | 989,981 | 854,230 | 135,751 | 15.9% |
| Licences | 183,254 | 178,736 | 4,518 | 2.5% |
| Professional services | 16,662 | 6,007 | 10,655 | 177.4% |
| | 1,189,897 | 1,038,973 | 150,924 | 14.5% |

Revenue in the three months ended April 30, 2020, increased in comparison to the same period in the prior year. The Company's total sales for the three months ended April 30, 2020, were $1,189,897 as compared to $1,038,973 for the corresponding period in 2019, an increase of $150,924 or 14.5%. The Company continues to see growth in its "software-as-a-service" offering and benefits from this model as 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 April 30, 2020, represented $989,981 of the total revenue compared to $854,230 for the corresponding three months the previous year, an increase of $135,751 or 15.9%. Recurring revenue represented 83.2% of total sales revenue in the three months ended April 30, 2020, as compared to 82.2% in the same three months of fiscal 2019.

Currency Controller license fees for the three months ended April 30, 2020, were $180,007 compared to $175,408 for the 2019 comparative period. Cirreon license fees for the three months ended April 30, 2020, were $3,247 compared to $3,328 for the 2019 comparative period.

### ***Cost of Goods Sold and Gross Profit***

*Three months ended April 30, 2020 compared to Three months ended April 30, 2019*

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. dollar sales represent more than 95% of total sales.

Cost of goods sold for the three months ended April 30, 2020, was $390,255 compared to $288,327 in the corresponding period in 2019. The overall Gross Profit achieved in the second quarter of 2020 was $799,642 or 67.2%, compared to Gross Profit for the corresponding period in 2019 of $750,646 or 72.2%, a decrease in Gross Margin percentage of 5.0 percentage points. The decrease in Gross Margin is primarily from higher staffing costs in cost of sales as the number, and compensation levels, of software developers have increased quarter-over-quarter.

### ***Selling Expenses***

*Three months ended April 30, 2020 compared to Three months ended April 30, 2019*

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 April 30, 2020, totaled $70,446, a decrease of $30,425 or 30.2% from $100,871 in the corresponding period of 2019. This decrease is because of one-time rebranding and website redevelopment costs of $49,990 in the second quarter of 2019 that were not incurred in the current quarter. However, sales staff compensation costs are higher by $19,502 in the quarter ended April 30, 2020, and various other selling expenses increased by an aggregate of $63 in the period, resulting in an overall decrease in selling expenses of only $30,425. Selling expense was 5.9% of revenue in the second quarter of 2020 as compared to 9.7% in the 2019 same quarter, recognizing that revenues in the 2020 period were up $150,924 or 14.5% from the 2019 comparative period.

### ***General and Administration Expenses***

*Three months ended April 30, 2020 compared to Three months ended April 30, 2019*

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 $190,451 in the three months ended April 30, 2020, as compared to $140,485 in the 2019 comparative period, an increase of $49,966 or 35.6%.

G&A expense increased in the current quarter mostly due to a provision of $30,000 accrued in respect of a new exposure to US State sales tax, increased human resources consulting and recruiting expenses of $6,461, and higher staff compensation costs of $6,164. Various other G&A costs increased by $7,341, in aggregate, period-over-period resulting in the total expense in the quarter ended April 30, 2020, being higher by $49,966 versus the comparative quarter.

Depreciation of property and equipment for the three months ended April 30, 2020, of $1,569 increased by $172 or 12.3% from $1,397 in the same period of 2019. The level of amortization is a result of the Company incurring only minor expenditures for property and equipment over the last several years.

Depreciation of the right-of-use asset for the three months ended April 30, 2020, is $16,152 (2019 – $nil). As described below, and in Note 3 of the Financial Statements, on November 1, 2019, the Company adopted IFRS 16 – Leases. The adoption of IFRS 16 has resulted in the recognition of a right-of-use asset in respect of the Company's operating premises lease. The right-of-use asset is depreciated on a straight-line basis over the lease term, which expires December 31, 2021.

With the increase in sales, as noted above, and the increase in G&A expenses, the G&A expense ratio as compared to revenue was 16.0% in the second quarter of 2020 as compared to 13.5% in the 2019 second quarter.

## *Financing and Other Costs and Income*

Other than trade and other payables, income taxes payable, amounts due under the employee long term bonus plan, and a lease liability, the Company has no debt outstanding and, other than a finance cost on the lease liability, incurred no interest expense in respect of outstanding debt in the current or comparative period.

### *Interest income*

The Company holds a $4,230,000 term deposit which matures on November 26, 2020, and bears interest at 1.7% per annum, and a $400,000 term deposit which matures on February 19, 2021, and bears interest at 1.02% per annum. In respect of these term deposits, for the quarter ended April 30, 2020, $18,537 of interest income was recognized ($9,644 for the quarter ended April 30, 2019).

### *Finance cost on lease liability*

As described below, and in Note 3 of the Financial Statements, on November 1, 2019, the Company adopted IFRS 16 – Leases. The adoption of IFRS 16 has resulted in the recognition of a lease liability in respect of the Company's operating premises lease expiring December 31, 2021. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. For the three months ended April 30, 2020, the finance cost recognized was $1,171 (2019 – $nil).

### *Gain (loss) on foreign exchange*

The Company recognized a gain on foreign exchange of $84,177 in the second quarter of 2020, whereas a gain of $29,270 was experienced in the comparative quarter of 2019. This results in an increase in income of $54,907 in the 2020 second quarter as compared to the 2019 same period. The gain on foreign exchange recognized in the quarter ended April 30, 2020, 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 fluctuation in the Canadian dollar vis-à-vis the US dollar occurring during the quarter. The Company invoices its foreign customers in US dollars and recognizes a foreign exchange gain (loss) when the Canadian dollar amount of the receivable at period end, or the amount received in the period, is greater (less) than at the time of invoicing.

### ***Provision for Income Taxes***

The basic rate of 26.50% was applied to the pre-tax income in the 2020 second quarter (2019 – 26.50%), resulting in a deferred income tax recovery of $1,000 (2019 – recovery of $11,000) and current income tax expense of $170,824 (2019 – $155,842).

As a result of recognizing a deferred income tax recovery of $63,000 in the first quarter of 2020 and $1,000 in the second quarter, at April 30, 2020, the Company had tax assets totaling $117,000 (October 31, 2019 – $53,000). This asset primarily relates to deferred tax assets from deferral of capital cost allowance and the amount currently not deductible under the employee long term bonus plan.

### ***Comprehensive Income and Income Per Share***

As a result of the factors discussed above, the comprehensive income after tax for the three months ended April 30, 2020 was $470,532 as compared to income of $403,362 in the three months ended April 30, 2019.

Three months ended April 30,

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Comprehensive income | 470,532 | 403,362 |
| Income per share: | | |
| Basic | 0.02 | 0.01 |
| Diluted | 0.02 | 0.01 |

For the three months ended April 30, 2020, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2019 – 27,286,332).

## ***Six months ended April 30, 2020 compared to Six months ended April 30, 2019***

### ***Revenue***

| | 2020 | 2019 | Change | Change % |
|---|---|---|---|---|
| | $ | $ | $ | |
| Hosted services, maintenance and product support | 1,943,653 | 1,642,769 | 300,884 | 18.3% |
| Licences | 353,417 | 292,607 | 60,810 | 20.8% |
| Professional services | 16,662 | 6,007 | 10,655 | 177.4% |
| | 2,313,732 | 1,941,383 | 372,349 | 19.2% |

Revenue in the six months ended April 30, 2020, increased in comparison to the same period in the prior year. The Company's total sales for the six months ended April 30, 2020, were $2,313,732 as compared to $1,941,383 for the corresponding period in 2019, an increase of $372,349 or 19.2%. The Company continues to see growth in its "software-as-a-service" offering and benefits from this model as 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 six months ended April 30, 2020, represented $1,943,653 of the total revenue compared to $1,642,769 for the corresponding six months the previous year, an increase of $300,884 or 18.3%. Recurring revenue represented 84.0% of total sales revenue in the six months ended April 30, 2020, as compared to 84.6% in the same six months of fiscal 2019.

Currency Controller license fees for the six months ended April 30, 2020, were $346,869 compared to $286,110 for the 2019 comparative period. Cirreon license fees for the six months ended April 30, 2020, were $6,548 compared to $6,497 for the 2019 comparative period.

***Cost of Goods Sold and Gross Profit***

*Six months ended April 30, 2020 compared to Six months ended April 30, 2019*

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. dollar sales represent more than 95% of total sales.

Cost of goods sold for the six months ended April 30, 2020, was $902,578 compared to $577,990 in the corresponding period in 2019. The overall Gross Profit achieved in the first half of 2020 was $1,411,154 or 61.0%, compared to Gross Profit for the corresponding period in 2019 of $1,363,393 or 70.2%, a decrease in Gross Margin percentage of 9.2 percentage points. This decrease is from an amount accrued in cost of sales in the current half and due to the Company’s COO under the Employee Long Term Bonus Plan, as described below and in Note 15 of the Financial Statements, and also higher staffing costs in cost of sales as the number, and compensation levels, of software developers have increased period-over-period.

***Selling Expenses***

*Six months ended April 30, 2020 compared to Six months ended April 30, 2019*

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 six months ended April 30, 2020, totaled $270,749, an increase of $95,936 or 54.9% from $174,813 in the corresponding period of 2019. This increase is mostly because of a $122,789 accrual made in respect of the Employee Long Term Bonus Plan. Also, sales staff compensation costs are higher by $39,864 in the first half of 2020, however, one-time rebranding and website redevelopment costs of $68,015 in the comparative period were not incurred in the current period. Various other selling expenses increased by an aggregate of $1,298 in the period. Selling expense was 11.7% of revenue in the first half of 2020 as compared to 9.0% in the 2019 same half, recognizing that revenues in the 2020 period were up $372,349 or 19.2% from the 2019 comparative period.

### ***General and Administration Expenses***

*Six months ended April 30, 2020 compared to Six months ended April 30, 2019*

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 $344,755 in the six months ended April 30, 2020, as compared to $275,605 in the 2019 comparative period, an increase of $69,150 or 25.1%.

G&A expense increased in the current half-year period primarily due to a provision of $30,000 accrued in respect of a new exposure to US State sales tax, increased human resources consulting and recruiting expenses of $13,860, higher staff compensation costs of $7,697, and professional fees of $6,076 incurred for assessing US State sales tax exposure and compliance. Various other G&A costs increased by $11,517, in aggregate, period-over-period resulting in the total expense in the six months ended April 30, 2020, being higher by $69,150 versus the comparative half-year period.

Depreciation of property and equipment for the six months ended April 30, 2020, of $3,137 increased by $390 or 14.2% from $2,747 in the same period of 2019. The level of amortization is a result of the Company incurring only minor expenditures for property and equipment over the last several years.

Depreciation of the right-of-use asset for the six months ended April 30, 2020, is $32,304 (2019 – $nil). As described below, and in Note 3 of the Financial Statements, on November 1, 2019, the Company adopted IFRS 16 – Leases. The adoption of IFRS 16 has resulted in the recognition of a right-of-use asset in respect of the Company's operating premises lease. The right-of-use asset is depreciated on a straight-line basis over the lease term, which expires December 31, 2021.

With the increase in sales, as noted above, and the increase in G&A expenses, the G&A expense ratio as compared to revenue was 14.9% in the first half of 2020 as compared to 14.2% in the 2019 first half.

## ***Financing and Other Costs and Income***

Other than trade and other payables, income taxes payable, amounts due under the employee long term bonus plan, and a lease liability, the Company has no debt outstanding and, other than a finance cost on the lease liability, incurred no interest expense in respect of outstanding debt in the current or comparative period.

### ***Interest income***

The Company holds a $4,230,000 term deposit which matures on November 26, 2020, and bears interest at 1.7% per annum, and a $400,000 term deposit which matures on February 19, 2021, and bears interest at 1.02% per annum. In respect of these term deposits, for the six months ended April 30, 2020, $32,504 of interest income was recognized ($18,959 for the six months ended April 30, 2019).

### *Finance cost on lease liability*

As described below, and in Note 3 of the Financial Statements, on November 1, 2019, the Company adopted IFRS 16 – Leases. The adoption of IFRS 16 has resulted in the recognition of a lease liability in respect of the Company's operating premises lease expiring December 31, 2021. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. For the six months ended April 30, 2020, the finance cost recognized was $2,495 (2019 – $nil).

### *Gain (loss) on foreign exchange*

The Company recognized a gain on foreign exchange of $81,421 in the first half of 2020, whereas a gain of $24,903 was experienced in the comparative half of 2019. This results in an increase in income of $56,518 in 2020 as compared to the 2019 same period. The gain on foreign exchange recognized in the six months ended April 30, 2020, 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 fluctuation in the Canadian dollar vis-à-vis the US dollar occurring during the half. 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 2020 first half (2019 – 26.50%), resulting in a deferred income tax recovery of $64,000 (2019 – recovery of $5,000) and current income tax expense of $305,058 (2019 – $256,250).

As a result of recognizing a deferred income tax recovery of $64,000 in the first half of 2020, at April 30, 2020, the Company had tax assets totaling $117,000 (October 31, 2019 – $53,000). This asset primarily relates to deferred tax assets from deferral of capital cost allowance and the amount currently not deductible under the employee long term bonus plan.

### *Related Party Transactions*

The following summarizes the Company's related party transactions:

a) Rent and administration expenses in the amount of $22,800 (2019 – $22,800) and management fees of $30,000 (2019 – $30,000) were incurred in the six months ended April 30, 2020, 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 $22,500 were incurred in the six months ended April 30, 2020 (2019 – $22,500) from a company that is controlled by the Founder of the Company.

b) Included in trade and other payables at April 30, 2020, are amounts due to directors of $63,785 (October 31, 2019 – $64,295); and an amount due to the CEO of the Company of $nil (October 31, 2019 – $1,985). 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 six months ended April 30, 2020 was $666,219 as compared to income of $705,587 in the six months ended April 30, 2019.

Six months ended April 30,

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Comprehensive income | 666,219 | 705,587 |
| Income per share: | | |
| Basic | 0.02 | 0.03 |
| Diluted | 0.02 | 0.03 |

For the six months ended April 30, 2020, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2019 – 27,286,332).

## Liquidity and Capital Resources

### *General*

During the most recent five year period ended October 31, 2019, 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 $5,959,287 at April 30, 2020, compared to working capital of $4,638,487 at October 31, 2019. Excluded from the April 30, 2020, working capital calculations are: prepaid expenses of $20,557 (October 31, 2019 – $65,313); and deferred revenue of $637,875 (October 31, 2019 – $148,249).

For the six months ended April 30, 2020, the Company had cash flow from operations of $1,163,023 as compared to cash flow from operations of $921,081 in the six months ended April 30, 2019. The increase in cash flow from operations is primarily from the higher achievement of sales in the first half of 2019 versus the 2018 period, noting from the statement of cash flows that the amount expensed under the employee long term bonus plan is a non-cash item.

### *BALANCE SHEET*

### *Short Term Investments*

At April 30, 2020, the Company holds a $4,230,000 term deposit (October 31, 2019 - $2,500,000) which matures on November 26, 2020, and bears interest at 1.7% per annum, and a $400,000 term deposit (October 31, 2019 - $nil) which matures on February 19, 2021, and bears interest at 1.02% per annum. At April 30, 2020, the accrued interest totals $31,736 (October 31, 2019 – $39,233) for both term deposits.

***Trade and Other Receivables***

At April 30, 2020, the company had trade and other receivables of $906,527 (October 31, 2019 – $1,040,099). The amount of receivables over 90 days past due, at April 30, 2020, is $213,934 (October 31, 2019 – $315,988). 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 six months ended April 30, 2020, the Company recognized a deferred income tax recovery of $64,000 and, as a result, at April 30, 2020, the Company had tax assets totaling $117,000 (October 31, 2019 – $53,000). The amount of deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty.

***Right-of-Use Asset and Lease Liability***

As described below, and in Note 3 of the Financial Statements, on November 1, 2019, the Company adopted IFRS 16 – Leases. The adoption of IFRS 16 has resulted in the recognition of a right-of-use asset and a lease liability in respect of the Company's operating premises lease expiring December 31, 2021.

***Financing Agreements***

Other than trade and other payables, income taxes payable, a lease liability and amounts accrued under the employee long term bonus plan, the Company has no debt outstanding.

***Employee Long Term Bonus Plan***

On June 29, 2015, the Directors passed a resolution establishing an Employee Long Term Bonus Plan (the "Plan"). The purpose of the Plan 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 April 30, 2020, the Company does not envision a change of control event occurring within the foreseeable future.

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.
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 are being recognized as an expense over the vesting period from July 2, 2019 to December 31, 2021. Based on the closing share price at April 30, 2020, and the number of outstanding shares, the total value of the amount due to the COO at the end of the vesting period is $1,227,885.

In the six months ended April 30, 2020, $245,578 of this award was expensed in the statements of comprehensive income. $122,789 was expensed in cost of sales and $122,789 in selling. The cumulative amount accrued at April 30, 2020, is $409,296 (October 31, 2019 – $163,718) and has been recorded as a liability on the Company's balance sheet. The amount of this liability will be remeasured each quarter, based upon the share price of the Company's stock and the quarterly instalments required to amortize the liability by December 31, 2021. At the termination date, this liability will be settled in either cash or in newly issued shares of the Company.

### *Contractual Obligations*

A summary of the Company's undiscounted contractual obligations, at April 30, 2020:

| | Total | Less than 1 year | 1 to 5 years |
|---|---|---|---|
| | $ | $ | $ |
| Trade and other payables | 293,178 | 293,178 | - |
| Income taxes payable | 115,091 | 115,091 | - |
| Premises lease | 112,500 | 67,500 | 45,000 |
| Employee long term bonus plan | 1,227,885 | - | 1,227,885 |
| | 1,748,654 | 475,769 | 1,272,885 |

## *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 half of 2020, capital expenditures were $1,184 as compared to $4,736 in the first half of 2019.

### 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, 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 |
|---|---|---|---|
| | $ | $ | $ |
| **Assets** | | | |
| Right-of-use asset | - | 139,980 | 139,980 |
| **Liabilities and shareholders' equity** | | | |
| 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.

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) |
| **Lease liability recognized as at November 1, 2019** | **139,980** |

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.

**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, 2020. At the present time, the Company does not believe any known, future changes to IFRS will have a direct impact on the Company based on its current operations. If the Company determines that any amendments or proposed changes will impact the financial statements, the Company will disclose the details of those updated standards at that time.

## Additional Information

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

## Outstanding Share Data

Summary of securities issued and outstanding as at April 30, 2020

| Class | Authorized | Issued and Outstanding |
|---|---|---|
| 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 April 30, 2020.

## 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 April 30, 2020, 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 it's 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
June 25, 2020