

NamSys Inc.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED JANUARY 31, 2022

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, 2022 and 2021 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 fourteen years ago certain customized functions were offered to a broad base of customers (largely through currency carriers). The Company referred to such offerings as "dashboard solutions" and ran the processes on its own dedicated computer system. This was essentially an early cloud computing solution. Over time, the formal cloud computing paradigm became acceptable to larger organizations. The Company's present business is largely directed to this delivery channel, with a variety of solutions to move, manage and account for currency now being largely driven by cloud based solutions.

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

Quarterly Financial Data

The table below presents selected financial data of the Company for each of the eight fiscal quarters ended January 31, 2022:

	Fiscal quarter end							
	Jan. 31 2022	Oct. 31 2021	Jul. 31 2021	Apr. 30 2021	Jan. 31 2021	Oct. 31 2020	Jul. 31 2020	Apr. 30 2020
	(in thousands of dollars)							
Revenue	1,273	1,273	1,231	1,245	1,226	1,236	1,196	1,190
Gross profit								
(loss)	689	723	729	752	789	(1,210)	636	800
Income (loss)								
after tax	291	322	329	306	310	(1,915)	157	471
Comprehensive								
income (loss)								
per share:								
Basic	0.011	0.012	0.012	0.011	0.011	(0.070)	0.006	0.017
Diluted	0.011	0.012	0.012	0.011	0.011	(0.070)	0.006	0.017

Results of Operations

Three months ended January 31, 2022 compared to Three months ended January 31, 2021

Revenue

	2022	2021	Change	Change %
	\$	\$	\$	
Software subscriptions, hosted services, maintenance and product support	1,263,447	1,220,626	42,821	3.5%
Licences	-	-	-	-
Professional services	9,594	5,729	3,865	67.5%
	1,273,041	1,226,355	46,686	3.8%

Revenue in the three months ended January 31, 2022, increased in comparison to the same period in the prior year. The Company's total sales for the three months ended January 31, 2022, were \$1,273,041 as compared to \$1,226,355 for the corresponding period in 2021, an increase of \$46,686 or 3.8%. The Company continues to see growth in its "software-as-a-service" offerings and benefits from this model as the services are paid monthly.

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

Recurring revenue, including maintenance, product support, software subscriptions and hosted services (SaaS) revenue for the three months ended January 31, 2022, represented \$1,263,447 of the total revenue compared to \$1,220,626 for the corresponding three months the previous year, an increase of \$42,821 or 3.7%. Recurring revenue represented 99.2% of total sales revenue in the three months ended January 31, 2022, as compared to 99.5% in the same three months of fiscal 2021.

Cost of Goods Sold and Gross Profit

Three months ended January 31, 2022 compared to Three months ended January 31, 2021

Historically, the sales mix between software license fees and subscriptions, hosted products and other services impact the Company's Gross Profit in any given reporting period. Gross Profit can also be affected by changes in the exchange rate between Canadian and U.S. dollars, given that U.S. dollar sales represent 95% or more of total sales.

Cost of goods sold for the three months ended January 31, 2022, was \$583,775 compared to \$436,969 in the corresponding period in 2021. The overall Gross Profit achieved in the first quarter of 2022 was \$689,266 or 54.1%, compared to Gross Profit for the corresponding period in 2021 of \$789,386 or 64.4%, a decrease in Gross Margin percentage of 10.3 percentage points. The decrease is because of the hire of two new software developers dedicated to the Cirreon solution and an increase in cloud computing and related services supporting the Company's SaaS platform.

Selling Expenses

Three months ended January 31, 2022 compared to Three months ended January 31, 2021

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, 2022, totaled \$74,062, a decrease of \$3,774 or 4.8% from \$77,836 in the corresponding period of 2021. Various selling expenses decreased by an aggregate of \$3,774 in the period. Selling expense was 5.8% of revenue in the first quarter of 2022 as compared to 6.3% in the 2021 same quarter, recognizing that revenues in the 2022 period were up \$46,686 or 3.8% from the 2021 comparative period.

General and Administration Expenses

Three months ended January 31, 2022 compared to Three months ended January 31, 2021

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 \$251,585 in the three months ended January 31, 2022, as compared to \$235,555 in the 2021 comparative period, an increase of \$16,030 or 6.8%.

G&A expense increased in the current quarter primarily due to higher staffing costs of \$77,834 which now include a Chief Information Security Officer. However, Employer Health Tax (EHT) expense and professional fees are lower in the current quarter by a total of \$74,912 because of the termination of the Employee Long Term Bonus Plan, as described below and in Note 15 of the Financial Statements, which generated additional and one-time-only costs in the three months ended January 31, 2021. Various other G&A costs increased by \$13,108 in aggregate, resulting in the total expense in the quarter ended January 31, 2022, being higher by \$16,030 versus the comparative quarter.

Depreciation of property and equipment for the three months ended January 31, 2022, of \$6,447 increased by \$3,776 or 141.4% from \$2,671 in the same period of 2021. The increase is from the write-off of the unamortized balance of leasehold improvements on space the Company no longer occupies. 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 January 31, 2022, is \$10,768 (2021 – \$16,151). The Company adopted IFRS 16 – Leases on November 1, 2019. The adoption of IFRS 16 resulted in the recognition of a right-of-use asset in respect of the Company's operating premises lease. The right-of-use asset is depreciated on a straight-line basis over the lease term, which expired 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 19.8% in the first quarter of 2022 as compared to 17.2% in the 2021 first quarter.

Financing and Other Costs and Income

Other than trade and other payables, the Company has no debt outstanding and, other than a finance cost on a lease liability that terminated December 31, 2021, incurred no interest expense in respect of outstanding debt in the current or comparative period.

Interest income

The Company held a \$2,000,000 term deposit which matures on March 14, 2022 and bore interest at 0.78% per annum. In respect of term deposits, for the quarter ended January 31, 2022, \$3,932 of interest income was recognized (\$5,954 for the quarter ended January 31, 2021).

Finance cost on lease liability

The Company adopted IFRS 16 – Leases on November 1, 2019. The adoption of IFRS 16 resulted in the recognition of a lease liability in respect of the Company's operating premises lease which expired December 31, 2021. Each lease payment included in the lease liability was apportioned between the repayment of the liability and a finance cost. For the three months ended January 31, 2022, the finance cost recognized was \$55 (2021 – \$702).

Gain (loss) on foreign exchange

The Company recognized a gain on foreign exchange of \$27,813 in the first quarter of 2022, whereas a loss of \$58,873 was experienced in the comparative quarter of 2021. This results in an increase in income of \$86,686 in the 2022 first quarter as compared to the 2021 same period. The gain on foreign exchange recognized in the quarter ended January 31, 2022, is a result of both the large number of clients that are domiciled in the USA and other countries, which are invoiced for services in US dollars, along with the fluctuation in the Canadian dollar vis-à-vis the US dollar occurring during the quarter. The Company invoices its foreign customers in US dollars and recognizes a foreign exchange gain (loss) when the Canadian dollar amount of the receivable at period end, or the amount received in the period, is greater (less) than at the time of invoicing.

Provision for Income Taxes

The basic rate of 26.50% was applied to the pre-tax income in the 2022 first quarter of \$395,309 (2021 – basic rate of 26.50% and pre-tax income of \$422,410), resulting in a current income tax expense of \$104,631 (2021 – expense of \$70,350). Deferred income tax expense was \$nil in the first quarter of 2022 (2021 – expense of \$42,000).

As a result of recognizing a current income tax expense of \$104,631 in the first quarter of 2022, as well as paying income tax instalments of \$50,000, at January 31, 2022, the Company had income taxes receivable totaling \$59,281 (October 31, 2021 – \$113,912).

As a result of recognizing a deferred income tax expense of \$nil in the first quarter of 2022, at January 31, 2022, the Company had deferred income tax assets totaling \$13,000 (October 31, 2021 – \$13,000). 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 (2021 – \$11,400) and management fees of \$15,000 (2021 – \$15,000) were incurred in the three months ended January 31, 2022, from a company that is partially owned by the Chairman of the Board ("Chairman") of the Company (formerly the Chief Executive Officer). In addition, consulting expenses for sales and marketing in the amount of \$15,000 were incurred in the three months ended January 31, 2022 (2021 – \$15,000) from a company that is controlled by the Founder of the Company.
- b) Included in trade and other payables at January 31, 2022, are amounts due to directors of \$70,127 (October 31, 2021 – \$34,755); an amount due to a company that is controlled by the Founder of the Company of \$4,238 (October 31, 2021 – \$nil); and an amount due to the Chief Financial Officer of the Company of \$12,600 (October 31, 2021 – \$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, 2022 was \$290,678 as compared to a comprehensive income of \$310,060 in the three months ended January 31, 2021.

Three months ended October 31,

	2022	2021
	\$	\$
Comprehensive income (loss)	290,678	310,060
Income (loss) per share:		
Basic	0.01	0.01
Diluted	0.01	0.01

For the three months ended January 31, 2022, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2021 – 27,286,332).

Liquidity and Capital Resources

General

During the most recent five year period ended October 31, 2021, 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 \$5,502,094 at January 31, 2022, compared to working capital of \$4,843,323 at October 31, 2021. Excluded from the January 31, 2022, working capital calculations are: prepaid expenses of \$58,207 (October 31, 2021 – \$83,444); and deferred revenue of \$714,715 (October 31, 2021 – \$373,285).

For the three months ended January 31, 2022, the Company had negative cash flow from operations of (\$266,735) as compared to negative cash flow from operations of (\$2,696,560) in the three months ended January 31, 2021. The decrease in negative cash flow from operations is due to the amount paid in the first quarter of 2021 of \$2,962,272 in respect of the termination of the Employee Long Term Bonus Plan, as described below and in Note 15 of the Financial Statements.

BALANCE SHEET

Short Term Investments

At January 31, 2022 and October 31, 2021, the Company held a \$2,000,000 term deposit which matures on March 14, 2022, and bore interest at 0.78% per annum.

Total interest accrued for the three months ended January 31, 2022 in respect of term deposits amounted to \$3,932 (2021 – \$5,954).

Trade and Other Receivables

At January 31, 2022, the Company had trade and other receivables of \$1,522,681 (October 31, 2021 – \$644,230) of which \$48,794 (October 31, 2021 – \$38,775) was reallocated to non-current assets. One foreign customer withheld an aggregate amount of \$48,794, for income tax on royalties, from payments made to the Company in respect of trade receivables. The Company believes the withholdings were made in error and the amount will be recovered. However, as it is likely the recovery will not be realized within the next twelve months, the receivable was reallocated to non-current assets.

The amount of receivables over 90 days past due, at January 31, 2022, is \$206,652 (October 31, 2021 – \$104,092). Based on subsequent collections and a review of outstanding balances, the Company believes no provision for expected credit losses is required at this time.

Property and Equipment

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

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

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

Deferred Income Tax Asset

In the three months ended January 31, 2022, the Company recognized a deferred income tax expense of \$nil and, as a result, at January 31, 2022, the Company had deferred income tax assets totaling \$13,000 (October 31, 2021 – \$13,000). The amount of deferred tax assets is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty.

Right-of-Use Asset and Lease Liability

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

Financing Agreements

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

Employee Long Term Bonus Plan

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

On October 30, 2020, the Directors, with the concurrence of the Plan Employees, terminated the Plan. The termination payout amount agreed to was \$3,949,697 and this obligation was settled by a payout of \$2,962,272 in the first quarter of fiscal year 2021 and a payout of \$987,425 in the second quarter of fiscal 2021. The \$987,425 amount was paid to the Chairman of the Company in settlement of his sale of 1,161,675 common shares to the Plan Employees in accordance with the agreed upon terms of the termination. The amount paid for the shares was based on the quoted market price of the shares at the time of sale.

No amount was expensed in the statement of comprehensive income in the current or comparative period under the Plan.

Contractual Obligations

A summary of the Company's undiscounted contractual obligations, at January 31, 2022:

	Total	Less than 1 year	1 to 5 years
	\$	\$	\$
Trade and other payables	312,189	312,189	-
Income taxes payable	-	-	-
Premises lease	6,353	6,353	-
	318,542	318,542	-

Capital Expenditures

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology, property and equipment purchases, and capital investments into intellectual property. During the first quarter of 2022, capital expenditures were \$5,770 as compared to \$4,244 in the first quarter of 2021.

Summary of Significant Accounting Policy Choices or Changes under IFRS

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

Foreign currency translation

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

Property and equipment

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

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

Income taxes

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

and liabilities and their respective tax basis and for tax losses and other deductions carried forward.

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

Adoption of Accounting Standards

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

Recent Accounting Pronouncements

Certain new standards and pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after November 1, 2022. 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 January 31, 2022

<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, 2022.

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, 2022, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company would have been known to them. Through the evaluation of the design of its internal controls the Company has identified an internal control weakness in the financial reporting process, specifically a lack of segregation of duties in the accounting process. This situation is common to many small companies. In order to mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight, and interim and annual financial statements are reviewed by the Company's board. While the deficiency in segregation of duties could lead to a material misstatement in the financial statements, management believes that its supervisory and review controls are sufficient to prevent a material misstatement from occurring.

Critical Accounting Estimates

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

Investor Relations

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

Legal Proceedings

There are no outstanding legal proceedings.

Environmental Issues

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

Risk Factors

Dependence on Management

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

Seasonality and Inflation

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

Market Risks

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

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

Market Condition Risks

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

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

Financing Risk

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

Competition Risk

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

Product Performance and Availability Risk

The Company's products are tested extensively and must meet certain quality assurance tests prior to delivery to customers. Product failures or lack of availability can result in a number of risks to the business including: market reputational risks and warranty/cost of goods expense risks.

Novel Coronavirus ("COVID-19")

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

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
April 5, 2022