

**NETCENTS TECHNOLOGY INC.**  
**(formerly Netcents Systems Ltd.)**

Interim Financial Statements

Nine Months Ended July 31, 2016

(Unaudited)

(Expressed in Canadian dollars)

**NOTICE OF NO AUDITOR REVIEW OF  
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

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

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**NETCENTS TECHNOLOGY INC.**

(formerly Netcents Systems Ltd.)

Statements of Financial Position

(Expressed in Canadian dollars)

	July 31, 2016 (unaudited)	October 31, 2015 (audited)
<b>Assets</b>	<b>\$</b>	<b>\$</b>
Current assets:		
Cash	1,029	41,377
Deposit and advances	10,300	6,500
<b>Total assets</b>	<b>11,329</b>	<b>47,877</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	692,170	550,296
Loans payable (note 5)	200,478	160,577
Derivative liability (note 6)	33,034	33,034
	<b>925,682</b>	<b>743,907</b>
Shareholders' deficit:		
Share capital (note 6)	4,119,698	3,296,812
Reserves (note 6)	501,880	-
Shares to be issued (note 6)	-	96,294
Deficit	(5,535,931)	(4,089,136)
	<b>(914,353)</b>	<b>(696,030)</b>
<b>Total liabilities and shareholders' equity</b>	<b>11,329</b>	<b>47,877</b>

Approved on behalf of the Board:

"Gord Jessop"  
Director

"Clayton Moore"  
Director

*See accompanying notes to interim financial statements*

# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)  
Statements of Comprehensive Loss  
(Expressed in Canadian dollars)

	Three Months Ended July 31		Nine Months Ended July 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Operating Expenses:				
Consulting fees (note 7)	43,188	684,173	257,388	831,173
Investor relations and marketing	5,181	-	120,357	-
Professional fees	15,750	25,145	55,873	70,758
Software development	6,394	14,901	86,853	24,817
General and administrative	22,224	17,361	55,175	36,229
Regulatory and filing	2,254	-	13,660	-
	<b>(94,991)</b>	<b>(741,580)</b>	<b>(589,306)</b>	<b>(962,977)</b>
Other Income (Expense):				
Stock based compensation (note 6)	(7,135)	-	501,880	-
Listing fee (note 9)	-	-	353,692	-
Fair value change of derivative liability (note 6)	-	-	-	-
Gain on settlement of debt (notes 4, 5 and 6)	-	491,220	-	810,919
Other income expense	-	-	-	-
Interest expense (note 7)	(1,917)	(1,500)	1,917	(11,649)
	<b>(9,052)</b>	<b>489,720</b>	<b>(857,489)</b>	<b>799,270</b>
Comprehensive net income (loss)	<b>(104,043)</b>	<b>(251,860)</b>	<b>(1,446,795)</b>	<b>(163,707)</b>
Earnings (loss) per share – basic and diluted	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.05)</b>	<b>(0.05)</b>
Weighted average number of shares outstanding – basic and diluted	<b>28,609,599</b>	<b>35,356,544</b>	<b>27,906,913</b>	<b>23,745,584</b>

See accompanying notes to interim financial statements

# NETCENTS SYSTEMS LTD.

Statement of Changes in Shareholders' Equity  
(Expressed in Canadian dollars)

	Share capital		Shares to be issued		Reserves: Options	Deficit	Total
	Number of shares	Amount	Number of shares	Amount			
		\$		\$	\$	\$	\$
<b>Balance at October 31, 2014</b>	<b>16,417,421</b>	<b>\$ 971,290</b>	<b>4,130,000</b>	<b>\$ 695,000</b>	<b>\$ (2,778,725)</b>	<b>\$ (1,112,435)</b>	<b>4,130,000</b>
Shares issued for cash	3,600,000	615,000	-	-	-	615,000	-
Shares to be issued for services (note 6)	-	-	750,000	75,000	-	75,000	750,000
Shares issued for services previously provided	20,000	5,000	(20,000)	(5,000)	-	-	(20,000)
Shares issued to retire a loan payable	291,667	35,000	-	-	-	35,000	-
Shares issued for services previously provided – related party	3,000,000	300,000	(3,000,000)	(300,000)	-	-	(3,000,000)
Shares issued for services	3,062,220	306,222	-	-	-	306,222	-
Shares issued for services – related party	3,000,000	300,000	-	-	-	300,000	-
Shares issued to covert loan	620,161	50,000	-	-	-	50,000	-
Cancellation of obligation to issue shares (note 5)	-	-	(1,860,000)	(465,000)	-	(465,000)	(1,860,000)
Shares issued for services	7,143,000	-	-	-	-	-	-
Comprehensive loss:							
Net income	-	-	-	-	(163,707)	(163,707)	-
<b>Balance at July 31, 2015</b>	<b>37,154,469</b>	<b>\$ 2,582,512</b>	<b>-</b>	<b>\$ -</b>	<b>\$ (2,942,432)</b>	<b>\$ (359,920)</b>	<b>-</b>
<b>Balance at October 31, 2015</b>	<b>37,154,469</b>	<b>3,296,812</b>	<b>535,175</b>	<b>96,294</b>	<b>-</b>	<b>(4,089,136)</b>	<b>(696,030)</b>
Shares issued for cash (note 6)	1,332,000	333,000	-	-	-	-	333,000
Shares issued for services (notes 6 and 7)	325,000	54,882	(250,000)	(44,982)	-	-	9,900
Shares issued for obligation to issue shares	285,175	51,312	(285,175)	(51,312)	-	-	-
Shares issued for loan payable (note 7)	40,000	30,000	-	-	-	-	30,000
Share exchange on amalgamation (note 9)	(11,484,123)	-	-	-	-	-	-
Listing expense on amalgamation (note 9)	1,010,549	353,692	-	-	-	-	353,692
Stock-based compensation	-	-	-	-	501,880	-	501,880
Comprehensive loss:							
Net loss	-	-	-	-	-	(1,446,795)	(1,446,795)
<b>Balance at July 31, 2016</b>	<b>28,663,070</b>	<b>4,119,698</b>	<b>-</b>	<b>-</b>	<b>501,880</b>	<b>(5,535,931)</b>	<b>(914,353)</b>

See accompanying notes to interim financial statements

# NETCENTS SYSTEMS LTD.

Statements of Cash Flows  
(Expressed in Canadian dollars)

	Nine Months Ended July 31	
	2016	2015
	\$	\$
Operating activities		
Net income (loss )	(1,446,795)	(163,707)
Items not effecting cash:		
Interest expense		11,649
Gain on settlement of debt	-	(810,919)
Shares issued on exchange listing	353,692	-
Stock-based compensation	501,880	-
Shares to be issued for services incurred	9,900	681,222
Changes in non-cash working capital		
Prepaid and deposit	(3,800)	(6,500)
Accounts payable and accrued liabilities	143,790	(42,813)
Cash used in operating activities	(441,333)	(331,068)
Financing activity		
Issuance of share capital for cash	333,000	615,000
Proceeds from loans	67,895	-
Cash provided by financing activities	400,985	615,000
Investing activity		
Software development	-	(59,801)
Cash used in investing activities	-	(59,801)
Increase (Decrease) in cash	(40,348)	224,131
Cash, beginning	41,377	5
Cash, ending	1,029	224,136

See accompanying notes to interim financial statements.

# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)

Notes to Interim Financial Statements

(Expressed in Canadian)

Nine Months Ended July 31, 2016

## 1. Nature of operations

Netcents Technology Inc. (formerly Netcents Systems Ltd.) (the "Company") is engaged in software development for the payment processing industry. On February 10, 2016, the Company obtained a public listing mean of a reverse takeover (Note 9).

The head office and the registered and records office of the Company are located at 1500 – 885 West Georgia Street, Vancouver, BC V6C 3E8.

These interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at July 31, 2016 the Company had not earned revenues and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful development and marketing of its payment platform software and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. As at July 31, 2016, the Company has cumulative losses of \$5,526,031 and a working capital deficiency of \$914,353. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and or private placement of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statements of financial position.

## 2. Basis of Preparation

The financial statements were authorized for issue on October 6, 2016 by the directors of the Company.

### (a) *Statement of Compliance with International Financial Reporting Standards*

The financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

### (b) *Basis of Measurement*

The financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars, unless otherwise noted.

### (c) *Significant estimates and assumptions*

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, fair value measurements of shares-based payments and contingent liabilities.

# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)

Notes to Interim Financial Statements

(Expressed in Canadian)

Nine Months Ended July 31, 2016

## 2. Basis of Preparation (continued)

### (d) Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- whether expenditures incurred meet the definition of research or development, and whether expenditures on development meet the criteria to be capitalized as intangible assets.

## 3. Significant Accounting Policies

### (a) Financial Instruments

The Company initially measures financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

Financial assets at fair value through profit or loss ("FVTPL") are measured at fair value at the balance sheet date with any gain or loss recognized in the statement of comprehensive loss. Interest and dividends earned from these assets are also included in the statement of comprehensive loss. The Company has no financial assets classified as FVTPL.

Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses are recognized in the statement of comprehensive loss. The Company classifies cash and deposits as loans and receivables.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company has no financial assets classified as held-to-maturity investments.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The Company has no financial assets classified as available-for-sale financial assets.

Non-derivative financial liabilities are measured at amortized cost using the effective interest method. Non-derivative financial liabilities consist of trade payables and loans payable. Derivative liabilities, which consist of share purchase warrants with variable exercise prices, are measured at fair value.

Transactions costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception (except for transaction costs related to financial instruments related to FVTPL financial assets which are expensed as incurred), and are recognized over the term of the assets or liabilities using the effective interest method. Any gains or losses are recognized in the statement of comprehensive loss.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.



# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)

Notes to Interim Financial Statements

(Expressed in Canadian)

Nine Months Ended July 31, 2016

## 3. Significant Accounting Policies (*continued*)

### (b) *Income and loss per share*

Basic income (loss) per share is calculated by dividing the income (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the income (loss) attributable to common shareholders equals the reported income (loss) attributable to owners of the Company. Diluted income (loss) per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted income (loss) per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

### (c) *Income taxes*

#### Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### Deferred income tax

Deferred income tax is provided using the asset and liability sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### (d) *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)

Notes to Interim Financial Statements

(Expressed in Canadian)

Nine Months Ended July 31, 2016

## 3. Significant Accounting Policies *(continued)*

### *(e) Research and development*

Research costs are expensed when incurred. Internally-generated software costs, including personnel costs of the Corporation's development group, are capitalized as intangible assets when the Corporation can demonstrate that the technical feasibility of the project has been established; the Corporation intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Corporation can reliably measure the expenditure attributable to the intangible asset during its development. After initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. These costs are amortized on a straight-line basis over the estimated useful life of three years. The Company did not have any development costs that met the capitalization criteria for the period ended July 31, 2016.

### *(f) Share-based payments*

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using a Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### *(h) Accounting standards issued but not yet effective*

#### New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The proposed effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018.

The Company has not early adopted this revised standard and is currently assessing the impact that it will have on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

## 4. Accounts Payable and Accrued Liabilities

	July 31, 2016	October 31, 2015
	\$	\$
Trade payables	692,170	493,447
Accrued liabilities	-	56,849
	-	550,296

# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)

Notes to Interim Financial Statements

(Expressed in Canadian)

Nine Months Ended July 31, 2016

## 5. Loans Payable

Pursuant to an agreement entered into on May 5, 2009, the Company was loaned \$50,000 bearing interest at 20% per year. The loan was repayable on September 2, 2009 is secured by the assets of the Company. As the Company did not repay the loan when due, the agreement required the Company to issue 200,000 common shares. At October 31, 2014 the loan was unpaid and there was outstanding interest and fees of \$52,534 with an additional \$1,671 interest accruing subsequent to October 31, 2014. The lender agreed to settle the loan and unpaid interest, the obligation to issue shares as well as a balance included in accounts payable of \$113,000 by payments totaling \$60,000 resulting in a gain from settlement of debt of \$157,205.

Pursuant to an agreement entered into on November 14, 2011, the Company was loaned \$60,000 bearing interest at 10% per year. The loan was repayable on May 14, 2013. Effective July 1, 2015, the lender agreed that interest would stop accruing on the loan. At July 31, 2016, the loan was unpaid and there was outstanding interest of \$16,270 (October 31, 2015: \$16,270).

Pursuant to an agreement entered into on February 6, 2015, the Company was loaned \$35,000 bearing interest at 6% per year. The proceeds received on the loan were reduced by a \$5,000 fee. On May 4, 2015, pursuant to the terms of the loan agreement, the loan was converted to 291,667 common shares at a conversion price of \$0.12 per share. As at July 31, 2016 (October 31, 2015 - \$478), there remains outstanding interest related to this loan of \$478.

Pursuant to an agreement entered into on May 6, 2013, the Company was advanced a total of \$50,000 during the year ended October 31, 2013. The amounts advanced were due 6 months subsequent to the date of advancement (the "Due Date"). The Company had the option of extending the due date by an additional 6 months. The loan bears interest at a rate of 12% per annum up to the Due Date and 15% per annum thereafter. The loan was convertible into units at an exercise price equal to the lower of \$0.25 per unit and the price of the then most recent public offering of the Company's shares. Each unit consists of one common share and one warrant. Each warrant allows the holder to purchase one additional common share for a period of two years from the date of issuance at an exercise price equal to the lower of \$0.25 per common share and the price of the then most recent public offering of the Company's shares. The value of the conversion feature was determined to be immaterial. On May 4, 2015, the loan was converted and the Company issued 620,161 units.

Pursuant to an agreement entered into on October 2, 2015 (the "Effective Date"), the Company was advanced \$40,000 from a third party. The loan is repayable in six months from the effective date and bears interest at a rate of 10% per annum. At July 31, 2016 and October 31, 2015, there was accrued interest of \$329.

Other loans totaling \$43,500 (October 31, 2014: \$205,994) are unsecured, non-interest bearing with no fixed terms of repayment (Note 7). Included in this balance as at October 31, 2014 was \$163,494 due to a company (the "Public Company") the Company had previously proposed completing a transaction with. During the year ended October 31, 2015, that Public Company agreed to forgive loans totaling \$163,494 which has been recognized as a gain on settlement. In connection with this settlement, an during the period ended July 31, 2016, the Company issued 285,175 common shares to certain investors that had previously invested in the Public Company in anticipation of the completion of the proposed transaction. The Company has recorded an obligation to issue these shares based on their estimated fair value of \$0.25 per share and reduced the gain on settlement by \$71,294.

For the period ended July 31, 2016, the Company received \$67,895 in short term loans each bearing interest of 15% compounded monthly. The loans are unsecured and payable on demand.

# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)

Notes to Interim Financial Statements

(Expressed in Canadian)

Nine Months Ended July 31, 2016

## 6. Share Capital

### (a) Authorized

Unlimited class A common shares, without par value.

### (b) Issued

On December 10, 2014, the Company completed a private placement and issued 1,900,000 common shares at a price of \$0.10 per share for proceeds of \$190,000.

On May 4, 2015, the Company issued 3,062,220 common shares to third parties for services rendered. The estimated fair value of the shares at the time of issuance was \$0.10 per share. The Company recorded consulting fees of \$306,222 in connection with this issuance. 2,000,000 of the common shares were issued to a director of the Company.

On May 4, 2015, the Company issued 3,000,000 common shares to the Company's chief executive officer for services rendered. The estimated fair value of the shares at the time of issuance was \$0.10 per share. The Company recorded consulting fees of \$300,000 in connection with this issuance.

On May 4, 2015, the Company issued 3,000,000 common shares to the Company's president pursuant to his employment agreement (note 7). The estimated fair value of the shares at the time of issuance was \$0.10 per share. The Company recorded consulting fees of \$300,000 in connection with the issuance, of these shares of which \$225,000 was recorded prior to October 31, 2014 and \$75,000 during the year ended October 31, 2015.

On May 4, 2015, pursuant to a consulting and services agreement that was effective January 1, 2015, the Company issued 7,143,000 common shares to third parties for services rendered. The estimated fair value of the shares at the time of issuance was \$0.10 per share. The Company recorded consulting fees of \$714,300 in connection with the issuance. 850,000 of the common shares were issued to a director of the Company.

On May 4, 2015, the Company issued 20,000 common shares to a third party to satisfy an obligation to issue shares.

On May 4, 2015, the Company issued 291,667 common shares on conversion of a loan with a balance of \$35,000 (note 5).

On May 4, 2015, the Company issued 620,161 units on the conversion of a convertible loan of \$50,000 plus accrued interest that was issued during the year ended October 31, 2013 (note 5). Each unit consisted of one common share and one warrant. Each warrant allows the holder to purchase one additional common share at an exercise price of \$0.10 per common share for a period of two years.

On July 6, 2015, the Company completed a private placement and issued 1,700,000 units at a price of \$0.25 per unit for proceeds of \$425,000. Each unit consists of one common share and one share purchase warrant. Each warrant allows the holder to purchase one additional share at a price of \$0.50 per common share for a period of 12 months.

On December 23, 2015, the Company completed a private placement and issued 1,332,000 units for gross proceeds of \$333,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.50 per share for a period of 12 months.

During the period ended July 31, 2016, the Company issued 250,000 shares (issued) to a third party for services that were rendered previous to October 31, 2015. These shares were recorded in shares to be issued at their estimated fair value of \$0.10 per share. In addition, the Company issued 285,175 common shares to certain investors that had previously invested in the Public Company in anticipation of the completion of the proposed transaction and another 40,000 common shares to settle loans payable in the amount of \$30,000. The Company granted 75,000 of common shares to a vendor for services provided on June 24, 2016. The fair market value of the shares at time of grant was \$9,900.

# NETCENTS TECHNOLOGY INC.

(formerly Netcents Systems Ltd.)

Notes to Interim Financial Statements

(Expressed in Canadian)

Nine Months Ended July 31, 2016

## (c) *Shares to be Issued*

On July 16, 2015, a third party agreed to waive the Company's obligation to issue the 1,660,000 common shares and settle an account payable of \$36,000 for a cash payment of \$25,000. The obligation to issue shares was previously recorded at their estimated fair value of \$0.25 per share. The cash payment was allocated to the reversal of the obligation to issue shares and charged to deficit. The settlement of the account payable resulted in a gain of \$36,000.

As at October 31, 2014, there were 20,000 common shares to be issued relating to a subscription of \$5,000 received prior to October 31, 2011. These common shares were issued during the year ended October 31, 2015.

At October 31, 2014, shares to be issued includes 200,000 common shares to be issued to a third party lender where the Company had failed to repay the loan when due. The obligation to issue these shares was recorded at \$0.25 per share, being their estimated fair value at repayment date of the loan. During the year ended October 31, 2015, the lender agreed to waive the Company's obligation to issue these shares (note 5).

During the period ended January 31, 2016, the Company agreed to issue an additional 250,000 shares (issued) to a third party for services that were rendered previous to October 31, 2015. These shares were recorded in shares to be issued at their estimated fair value of \$0.10 per share.

## (d) *Share purchase warrants*

As of July 31, 2016, there were 437,834 share purchase warrants outstanding as follows:

- i. 437,834 warrants which expire on May 4, 2017 and are exercisable at the lower of \$0.25 per share and the price of the then most recent public offering of the Company's shares. Because the exercise price of the warrants is not fixed these are accounted for as a derivative financial liability and recorded at fair value. The fair value was determined to be \$33,034 determined using the Black-Scholes option pricing model assuming a volatility of 75%, a risk free rate of 2.00%, a dividend yield of 0% and an expected life of six months.
- ii. 1,200,200 warrants which expired on July 6, 2016 and are exercisable at \$0.50 per share.

## (e) *Stock options*

As of July 31, 2016, there were 2,110,000 stock options outstanding as follows:

- i. 2,080,000 options which expire on April 27, 2026 (10 year expiry) and are exercisable at \$0.25 per share. The fair value was determined to be \$494,745 determined using the Black-Scholes option pricing model assuming a volatility of 123%, a risk free rate of 0.83%, a dividend yield of 0% and an expected life of ten years.
- ii. 30,000 options which expire on July 24, 2021 (5 year expiry) and are exercisable at \$0.25 per share. The fair value was determined to be \$7,135 determined using the Black-Scholes option pricing model assuming a volatility of 123%, a risk free rate of 0.83%, a dividend yield of 0% and an expected life of ten years.

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Notes to Interim Financial Statements

(Expressed in Canadian)

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## 7. Related Party Transactions

### (a) Related party transactions

Transactions with related parties for these periods are as follows:

	July 31, 2016	July 31, 2015
Consulting fees incurred to officers and directors of the Company	\$ 224,000	\$ 157,500
Professional fees paid or accrued for the Chief Financial Officer	21,000	-
Interest accrued on loan due to the Company's president	-	3,000
Consulting fees paid in shares to the President of the Company	-	75,000

Included in accounts payable and accrued liabilities as at April 30, 2016 is \$254,180 (October 31, 2015: \$192,776) to a director and the CEO of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment (note 4). On October 30, 2015, the Company's CEO agreed to defer the Company's obligation to repay the balance at that time to the earlier of April 30, 2017 and the date that the Company is adequately funded to pay the amount due, in full or in part, as determined in the sole judgment of the Company's Board of Directors. The Company has classified the balance as current.

Included in accounts payable and accrued liabilities as at July 31, 2016 is \$7,000 (October 31, 2015: \$7,000) due to a relative of a director and the CEO of the Company (note 4). This amount is unsecured, non-interest bearing with no fixed terms of repayment.

Included in accounts payable is \$15,750 owing to the Chief Financial Officer of the Company for the period ended July 31, 2016. The balance owing is for professional services rendered.

Included in loans payable as at July 31, 2016 is \$88,770 (October 31, 2015: \$94,164) plus accrued interest of \$16,270 (October 31, 2015: \$16,270). The lender was appointed as president of the Company during the year ended October 31, 2014. The loan is not secured. \$60,000 of the loan bears interest at 10% per year and was repayable on May 14, 2013. Effective July 1, 2015, the Company's president agreed that interest would stop accruing on the loan. The remainder of the loan is non-interest bearing with no fixed terms of repayment (note 5). Also due to the president at July 31, 2016 is \$161,500 (October 31, 2015: \$90,416) included in accounts payable and accrued liabilities. On October 30, 2015, the Company's president agreed to defer the Company's obligation to repay balances owing to him at October 31, 2015, to the earlier of April 30, 2017 and the date that the Company is adequately funded to pay the amount due, in full or in part, as determined in the sole judgment of the Company's Board of Directors. The Company has classified the balance as current.

### (c) Commitments with related parties

Pursuant to an employment agreement effective January 1, 2014, the Company will remunerate the president of the Company as follows:

- Salary of:
  - o \$5,000 per month for the 12 month period ended December 31, 2014;
  - o \$7,500 per month for the 12 month period ended December 31, 2015; and
  - o \$12,000 per month thereafter;
- Common share issuances:
  - o 750,000 shares on or before March 31, 2014 (issued);
  - o 750,000 shares on or before June 30, 2014 (issued);
  - o 750,000 shares on or before September 30, 2014 (issued); and
  - o 750,000 shares on or before December 31, 2014 (issued).

In the event that the president is terminated without cause, the Company must continue paying the salary of the president for a period of 18 months.

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Pursuant to an employment agreement effective January 1, 2014, the Company will remunerate the Chief Executive Officer of the Company as follows:

- Salary of:
  - o \$10,000 per month for the 24 month period ended December 31, 2015; and
  - o \$15,000 per month thereafter;

In the event that the CEO is terminated without cause, the Company must continue paying the salary of the president for a period of 18 months.

## 8. Financial Risk and Capital Management

### *Financial risks*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash. Substantially all of the Company's cash are deposited in bank accounts held with major banks in Canada. As the majority of the Company's cash is held by the same bank there is a concentration of credit risk. This risk is managed by using major Canadian banks that are high credit quality financial institutions as determined by rating agencies. The Company has assessed credit risk as low.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. The Company assesses liquidity risk as high.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's liabilities are either non-interest bearing or pay interest at fixed rates. Therefore, interest rate risk is not considered significant.

#### Foreign Currency Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not have any financial instruments denominated in foreign currencies and is therefore not exposed to foreign currency risk.

The Company's objectives when managing capital are:

- i. to ensure that the Company will continue as a going concern so that it can continue to provide services to its customers and offer a return on investment to its shareholders; and
- ii. to maintain a capital structure which optimizes the cost of capital while providing flexibility and diversity of funding sources and timing of debt maturities along with adequate anticipated liquidity for future growth.

The Company defines capital that it manages as the aggregate of its cash and share capital.

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The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances. The Company's investment policy is to invest only in investment grade, highly liquid money market and fixed income securities with less than one year maturity.

At July 31, 2016, the Company is not subject to any externally imposed capital requirements. The Company's overall strategy with respect to management of capital remains unchanged from the prior year.

## 9. Amalgamation and Listing on the Canadian Securities Exchange

On February 10, 2016, the Company completed an amalgamation between the Company, UWO Consulting Ltd. ("UWO"), 1018758 B.C. Ltd. ("PubCo") and 1887217 Alberta Ltd. ("SubCo"). SubCo is a wholly-owned subsidiary of PubCo and PubCo is a wholly-owned subsidiary of UWO. Pursuant to the amalgamation agreement, the following took place (the "Transactions"):

- PubCo applied to have its shares listed in the Canadian Securities Exchange ("CSE");
- the Company and SubCo amalgamated to form "AmalCo" and continue as one corporation under the Business Corporations Act of Alberta;
- the issued and outstanding common shares and share purchase warrants of the Company was exchanged for common shares and warrants of PubCo on the basis of one share or warrant of the Company for 0.706 shares or warrants of PubCo; and
- PubCo issued 1,010,549 common shares to UWO's shareholders. The estimated fair value of \$353,692 was determined to be \$0.35 per share based on the share price of the most recent financing at the time, adjusted by the share exchange ratio of 0.706; this has been classified as a listing expense.

The Transactions resulted in the reverse takeover of PubCo by the Company. In connection with the Transactions, PubCo changed its name to Netcents Technology Inc..