



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED 31 OCTOBER 2016**

Stated in Canadian Funds

**DATE: 28 FEBRUARY 2017**

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## TO OUR SHAREHOLDERS

This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of NetCents Technology Inc. ("NetCents" or the "Company") is for the year ended 31 October 2016. This MD&A was prepared to conform with National Instrument ("NI") 51-102F1 and was approved by the Board of Directors prior to its release. This MD&A should be read in conjunction with the Company's Audited Annual Consolidated Financial Statements for the year ended 31 October 2016. The Audited Consolidated Financial Statements for the fiscal year ended 31 October 2016 have been prepared in accordance with International Financial Reporting Standards.

The Company's functional and reporting currency is the Canadian dollar and all dollar amounts are in Canadian dollars, unless otherwise indicated.

Discussion of the Company, its operations and associated risks is further described in the Company's filings, available for viewing at [www.sedar.com](http://www.sedar.com). A copy of this MD&A will be provided to any applicant upon request.

## FORWARD LOOKING STATEMENTS

Certain statements contained in the following MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth in the Company's filings and herein. Additional information regarding the Company, including copies of the Company's continuous disclosure materials is available through the SEDAR website at [www.sedar.com](http://www.sedar.com).

The table below sets forth the significant forward-looking information included in this MD&A:

Forward-Looking Information	Key Assumptions	Most Relevant Risk Factors
The ability to raise capital in the future to continue on-going operations	Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future.	The ability of the Company to continue as a going concern is dependent upon obtaining ongoing financing and there can be no assurance that the Company will be able to raise any capital through any type of offering or similar financial arrangement.

## GENERAL

The Company is an electronic online Payment Service Provider (or "PSP"). The Company offers clients and merchants online services for managing electronic payments by a variety of payment methods through its processing platform. The Company transaction platform utilizes clearing services by running on the Banking Platform.

The Company is engaged in software development for the payment processing industry and holds all intellectual property. The intellectual property developed by the Company consists of copyright in the development of its technology, as well as trade secrets and marks associated with the company. The Company protects its intellectual property through the use of confidentiality provisions in its agreements with employees and contractors, and the assignment of all work products created by the employees and contractors to the Company.

**REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS**

The Company is a consumer focused payment platform that when fully developed will provide consumers with multiple payment options. As the platform evolves, it will allow for cash, credit cards, debit cards, gift cards, crypto-currencies, as well as Loyalty/Rewards transactions. The Company is functional and can facilitate the transfer of cash from a users account, into their The Company account. From there, users can buy goods and/or services online. The Company account holders can also transfer funds to other The Company account holders. Or, if they choose to, they can purchase Bitcoins which can be used to buy goods and services. The Bitcoins can also be sold and the user can transfer the net proceeds back into their The Company account.

The Company platform offers merchants a convenient and secure method of receiving payments from customers who prefer to pay through electronic methods. Utilizing the Banking Platform and the ACH network The Company connects businesses and their customers to facilitate payments. The Company works to meet the standards of all compliance and regulatory bodies.

The Company platform is also integrated with Automatic Clearing House ("ACH") Network. ACH is an electronic network for financial transactions in the United States. Rules and regulations that govern the ACH network are established by National Automated Clearing House Association ("NACHA") and the United States Federal Reserve. The NACHA manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data in the United States. It is funded by the financial institutions it governs.

The benefits of using ACH payment Processing is that during an ACH payment, the customer's account is debited, and the funds are credited to the business, merchant or trader's bank account. Both the government and the commercial sectors use ACH payments. Businesses increasingly use ACH online to have customers pay, rather than via credit or debit cards. The Company believes that offering clients the ability to pay through ACH payment will make their business more attractive to customers who do not use credit cards or have reached the limit on their cards. All such consumers need is a valid checking or savings account to access the ACH Network. Key features of NetCents include:

**1) Security**

The Platform protects the account holders from fraud and ID Theft. When using the platform the consumer's bank account number/credit card numbers or any personal information are not transmitted over the Internet.

**2) Funds are Pre-verified and Validated in Real Time**

Once the account holder has set up their account, they can transfer funds from their bank account to their user account. The bank then verifies the funds in the users account prior to any funds being transferred out. Once the funds are verified, the account holder may transfer the funds out without any delay. When a purchase is made, funds are validated in real-time. The process eliminates merchant charge backs as well as the requirement for merchants to provide collateral or keep a reserve.

**3) No Transmission of Personal Data**

When a transaction occurs, there is no personal ID or account information attached to the transaction. This lack of personal information prevents online fraud and ID theft. All customer data (personal and/or account related) remains protected and secure behind the banks firewall and encryption. Mail fraud is also eliminated as no paper statements are issued. The Company platform logs all transaction activity and the system maintains a complete audit trail of all transactions, financial and otherwise. There is a daily reconciliation of all consumer and merchant activity is conducted at the close of each business day. The Company is also able to place thresholds on user's accounts so as to monitor transactions by type, location and volume so as to ensure compliance with, Know Your Customer (KYC) Anti-money Laundering (AML) and Anti-terrorism guidelines.



#### **4) Digital Authorization Required**

Users are further protected as the Company cannot reach into a user's bank account without the user's authorization. The user's account is a separate and secure entity to which the user deposits funds for payment. Payments made to a merchant after completion of a transaction is authorized by the account holder for that amount and that amount only. Additional funds cannot be removed from the user's account without the account holder's digital authorization.

#### **5) Transactions**

The platform is functional, but not currently earning revenue. Users are able to:

- transfer monies (Fiat money) from their bank account to their user account,
- choose to either buy products and/or services online,
- transfer monies to other parties, and,
- purchase or sell cryptocurrencies.

All transactions occur within the Company environment so users do not have to access other sites or platforms to complete their intended transaction. As the current The Company platform is not credit card based, it is secure from fraud and ID theft resulting from credit card based transactions. The Company is integrated with a number of exchanges. This integration has allowed users to simultaneously view balances in both their cash (Fiat) and cryptocurrency accounts and be able to use cash to purchase additional cryptocurrencies or sell their cryptocurrencies and transfer the cash back to their accounts in real time. All cryptocurrency transactions are facilitated on the respective exchange's platforms.

Despite enabling users to purchase or sell cryptocurrencies, The Company is not a BitCoin exchange: While the platform allows account holders (or users) to see their Bitcoin balances in the users designated exchange, at no time during the transaction does The Company take ownership or liability for any Bitcoin or cryptocurrency regardless of which exchange is being used. Bitcoin or cryptocurrency does not ever enter the Company's transaction environment. All registration of Bitcoins, holding of Bitcoins, and settlement of the transaction remains with the respective exchange.

The platform provides merchants and consumers a secure way to purchase, sell, transfer, and transact in stores, online or mobile devices with a variety of currencies. The Company currently provides its products and services (its payment platform) to customers. However, it does not have revenues as of the date of this analysis. . The platform is fully operational and available to process payments.

#### **6) Principle Products and Services**

The Company is an online electronic Payment Service Provider. The Company offers a payment platform that offers multiple payment and financial services in a single web-based application that is easy to access, simple to setup and effective in its use. The Company' network builds on and utilizes the existing financial infrastructure of bank accounts to create an efficient cost effective payment solution. The Company delivers a product ideally suited for any size business, online merchants and consumers currently underserved by traditional payment mechanisms.

It is anticipated revenues will be generated primarily from transaction fees paid by both the merchant and the consumer. Merchant fees are lower than what current payment providers charge, thus making The Company an attractive additional payment option.

**REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS**

As a Payment Service Provider (PSP), The Company' application software is currently able facilitate the following types of transactions:

- Transfer funds from their bank account to their The Company account,
- allows The Company account holders to transfer funds to another The Company account holder(s),
- allows The Company account holders to purchase goods and services online from merchants,
- transfer cash from their The Company account to purchase crypto-currencies,
- sell crypto-currencies (Bitcoins) and transfer the cash back in their The Company account or bank account, and
- integrate with existing merchant processing systems.

The Company is currently developing further platform functionality:

- Integration with a company enabling The Company account holders to pay for products and service using either Loyalty/Rewards points or coupons.

**HIGHLIGHTS, SIGNIFICANT EVENTS AND TRANSACTIONS****1) Historical Development of the Business**

NetCents was incorporated in 2006 and spent the first few years developing a number of beta versions of its transaction processing platform. In early 2010 a final version was developed that was robust enough to simultaneously handle multiple transactions from multiple merchants and be able to scale. Subsequent to this, an agreement with the Royal Bank of Canada was signed in April 2010. This agreement enables NetCents' transaction platform to integrate into and run on the Banking Platform. This integration provides NetCents with the market reach and transaction capabilities to work with every major Bank and Credit Union in Canada. The Company works to ensure it meets the standards of all compliance and regulatory bodies such as, but not limited to; the Canadian Payment Association ("the CPA"), NACHA as well as the rules and standards which govern "know-your-customer" requirements, anti-money laundering laws and anti-terrorism.

From 2010 until 2012 The Company began to integrate their software with a number of merchants and/or charities including: Swimco.com, the Alberta Diamond Exchange, GregBuck.ca, Globalstormit.com, ThatChannel.com, The Princess Margaret Hospital Foundation, The Canadian Cancer Society, Mental Health, The Canadian National Institute for the Blind, The Sick Kids Foundation and The Heart & Stroke Foundation. From 2013 until the present, NetCents has continued to evolve and implement changes to its business model including a comprehensive redevelopment and upgrade of the Company platform which was completed in early 2015 to ensure that the platform was compliant with recently improved and updated protocols associated with the Banking Platform provider. The Company platform is functional but not as yet producing revenue.

The Company had previously sought to enter into a transaction with On4 Communications Inc. ("On4"), however the transaction was never completed. The Company entered into a binding letter of intent with On4 on or about November 3, 2011. Under the terms of the letter of intent, On4 was to acquire 100% of the issued and outstanding common shares of The Company on a 2:1 basis. As part of the transaction, On4 was required to restructure debt that On4 had accumulated; however this restructuring could not be finalized and the parties mutually agreed to terminate the binding letter of intent on or about November 11, 2014. A termination agreement was executed, which released The Company of any and all financial or legal obligations to On4. The Company and On4 no longer have any business relationship, and no transaction is contemplated.



## **2) How the Platform Works**

The platform has been designed to deal with issues of the “here and now” as well as bridge the gap to the “future” of cybercurrency based transactions. Since The Company is not a credit card based Payment Service Provider (PSP) platform, many of the inherent shortcomings are avoided or eliminated. The Company transaction platform utilizes the clearing services and runs on the Banking Platform. The Company transaction platform architecture is designed to minimize risk on a number of levels and is subject to Anti-Money Laundering and Anti-Terrorism regulations with respect to the activities of its Internet payment gateway and as such compartmentalizes, or segments the transaction process. A schematic overview of the platform architecture is depicted to the left.

## **3) Reverse Take Over and Listing on the Canadian Securities Exchange**

On February 10, 2016, the Company completed an amalgamation between the NetCents Systems Ltd. (Privco), UWO Consulting Ltd. (“UWO”), 1018758 B.C. Ltd. (“Pubco”) and 1887217 Alberta Ltd. (“SubCo”). SubCo is a wholly-owned subsidiary of Pubco and Pubco was a wholly-owned subsidiary of UWO. Pursuant to the amalgamation agreement, the following took place:

- Pubco applied to have its shares listed in the Canadian Securities Exchange (“CSE”);
- Pubco and SubCo amalgamated to form an amalgamated corporate entity continuing on as NetCents Technology Inc. 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
- NetCents Technology Inc. issued 1,010,549 common shares to UWO’s shareholders.

## **4) Recent Developments**

On August 4, 2016, the Company announced a strategic partnership between the professional services firm and the online payment service provider.

On July 5, 2016, the Company announced its partnership with Bitstamp Ltd., Europe’s largest bitcoin exchange.

On June 22, 2016, the Company announced its initiative to integrate with PayPal Holdings Inc.

On May 12, 2016, the Company appointed John Kanwisher and Phillip Shum to its newly formed advisory board (May 4, 2016 news release announcement).

On April 27, 2016, the Company released its mobile application for its payment platform on Google Play and iTunes store.

On April 11, 2016, the Company announced it has developed a proprietary digital wallet that accepts multiple currencies, both fiat and digital.

On March 23, 2016, the Company completed integration with the DigitalXDirect platform with DigitalX Limited.

On March 21, 2016, the Company announced it has signed a service agreement with an international remittance company.



## SIGNIFICANT EVENTS AND TRANSACTIONS SUBSEQUENT TO THE PERIOD

On 22 November 2016, the Company issued a convertible promissory note for proceeds of \$200,000. The note is interest bearing at 0.16% per day for the first month and 0.1% per day for the next two months, secured and was due on 21 February 2017. The Lender may, at its sole discretion elect, to convert any part of all of the outstanding balance toward the purchase of common shares in the capital stock of the Company at a price per share equal to the bidding price per share average over the immediately preceding one-week period less a discount of 10% applied to each share. On 3 February 2017, the Company repaid the loan in the amount of the principal balance of \$200,000 plus accrued interest of \$18,800.

On 7 December 2016, the Company issued 191,240 common shares for \$0.20 per share for settlement of a loan payable with a principal and interest totalling \$38,248. (Note 9)

On 21 December 2016, the Company extended the expiration date of the 940,392 warrants issued on 25 December 2015 to 23 December 2017. (Note 10)

On 17 January 2017, the Company issued 190,476 common shares for settlement of a loan payable with a principal and interest totalling \$30,000 (Note 9)

On 6 February 2017, the Company issued 450,000 common shares for settlement of \$95,944 of debt for services provided for software development (Note 4).

On 15 February 2017, the Company issued a convertible promissory note for \$200,000. The note is interest bearing at 0.16% per day for the first day and 0.1% per day due on 23 May 2017, and secured. The Lender may, at its sole discretion elect, to convert any part of all of the outstanding balance toward the purchase of common shares in the capital stock of the Company at a price per share equal to the bidding price per share average over the immediately preceding one-week period less a discount of 10% applied to each share.

Subsequent to 31 October 2016, the Company agreed to provide payment processing services to a third party. To date the Company has processed payments of \$917,173 from which it will generate revenues in the form of transaction fees.

## SELECTED ANNUAL INFORMATION

The following table summarizes selected financial data for the Company for each of the three most recently completed financial years. The information set forth below should be read in conjunction with the consolidated audited financial statements, prepared in accordance and related notes.

Fiscal Year Ended	IFRS	IFRS	IFRS
	Oct 16	Oct 15	Oct 14
Revenues	Nil	Nil	Nil
Net Loss from Continuing Operations	(1,938,988)	(2,005,024)	(397,409)
Net Loss	(1,908,741)	(1,750,411)	(410,311)
Basic and Diluted Loss Per Share	(0.09)	(0.09)	(0.02)





## REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS

Total Assets	123,948	47,877	Nil
Long-Term Financial Liabilities	Nil	Nil	Nil
Cash Dividends Declared	Nil	Nil	Nil

The increase in net loss between fiscal 2014 and 2015 agrees with management's expectations as the Company is in the growth stage.

The reduction in net loss from 2015 to 2016 agrees to management's expectations as the Company's has increased its focus on cost cutting measures.

## RESULTS OF OPERATIONS

The comprehensive loss for the year ended 31 October 2016 was \$1,908,741 which compares to a comprehensive loss of \$1,750,411 incurred in the comparative period. The main fluctuations in costs are as follows:

<b>Stock-based compensation</b> (rounded to the nearest '000)	<b>12 months</b> <b>2016</b>	<b>12 months</b> <b>2015</b>
	\$ 615,000	\$ -
Variance increase	\$ 615,000	

The variance between current and comparative period expense is attributed issuance of stock-based compensation options in the current period. During the year ended 31 October 2016, The Company granted 2,110,000 stock options to directors, officers, consultants, and employees, compared to nil stock options during the period ended 31 October 2015.

<b>Listing and filing fees</b> (rounded to the nearest '000)	<b>12 months</b> <b>2016</b>	<b>12 months</b> <b>2015</b>
	\$ 472,000	\$ -
Variance increase	\$ 472,000	

During the year ended 31 October 2016, the Company incurred significant listing and filing fees due to a one-time listing fee expense related to the reverse take-over transaction and corresponding listing on the CSE.

<b>Consulting fees</b> (rounded to the nearest '000)	<b>12 months</b> <b>2016</b>	<b>12 months</b> <b>2015</b>
	\$ 355,000	\$ 1,656,000
Variance decrease	\$ (1,301,000)	

During the year ended 31 October 2016 the Company increased option-based remuneration in an effort to preserve cash and working capital. This resulted in a reduction in consulting fees and a corresponding increase in stock-based compensation.

<b>Investor relations</b> (rounded to the nearest '000)	<b>12 months</b> <b>2016</b>	<b>12 months</b> <b>2015</b>
	\$ 154,000	\$ 8,000
Variance increase	\$ 146,000	

The increase in expense can be attributed to the increased investor relations activity as the Company listed on the CSE.



## FINANCIAL DATA FOR LAST EIGHT QUARTERS

The following table sets out selected unaudited quarterly financial information of the Company and is derived from the unaudited condensed interim consolidated financial statements prepared by management. The Company's interim financial statements are prepared in accordance with International Financial Reporting Standards and are expressed in Canadian dollars.

Three Months Ended	Oct 16	Jul 16	Apr 16	Jan 16	Oct 15	Jul 15	Apr 15	Jan 15
Total Revenues	-	-	-	-	-	-	-	-
Loss from continuing operations	(1,349,682)	(94,991)	(255,893)	(238,422)	(1,042,047)	(741,580)	(132,887)	(88,510)
Income (loss) for the period	(461,946)	(104,043)	(1,104,330)	(238,422)	(1,586,704)	(251,860)	(134,558)	222,711
Loss per share (Basic and diluted)	(0.00)	(0.00)	(0.04)	(0.01)	(0.00)	(0.01)	(0.01)	0.02

The significant loss in the fiscal 2015 was primarily due to consulting fees with an offset against settlement of debt which did not occur in the fiscal 2016.

## OUTSTANDING SHARES

### 1) Issued and Outstanding Shares

As at 30 September 2016, the Company had 28,763,061 (31 October 2015: 37,154,469) common shares issued and outstanding. The fully diluted amount of 33,981,487 includes options of 2,590,000 and warrants of 2,628,426.

As of the date of this report, the Company had 29,594,777 common shares issued and outstanding. The fully diluted amount of 34,813,203 includes options of 2,590,000 and warrants of 2,628,426.

On 3 August 2016 the Company issued 100,000 units were issued to investor for proceeds of \$23,000. Each unit consists of one common share and one half of one share purchase warrant. Each whole warrant allows the holder to purchase one additional share at a price of \$0.35 per share for a period of 18 months from the date of issue.

On 3 August 2016 the Company issued 75,000 common shares in connection with a shares for services agreement. The fair value of the shares on the date of issuance was \$0.20; accordingly, the shares were valued at \$15,000.

On 10 February 2016 the Company completed an amalgamation whereby the Company's shares and warrants were exchanged for shares and warrants of PubCo on the basis of one share or warrant of the Company for 0.706 (the "Exchange Ratio") shares or warrants of PubCo (Note 3). The equity transactions prior to completion of the amalgamation are those of the Company (the legal acquiree) but have been restated to reflect the Exchange Ratio.

On 2 February 2016, the Company issued 1,010,549 common shares in connection with the Amalgamation. The estimated fair value of the shares was determined to be \$0.35 per share for a total estimated fair value of \$353,692 (Note 3).

On 2 February 2016 the Company issued 28,240 common shares in settlement of a \$30,000 loan. The fair value of the shares on the date of settlement was \$0.354; accordingly, the Company recognized a gain on settlement of debt of \$20,000.

On 2 February 2016 the Company issued 377,834 common shares to third parties to satisfy an obligation to issue shares outstanding as at 31 October 2015 in the amount of \$96,294.

On 23 December 2015, the Company completed a private placement and issued 940,392 units at a price of \$0.354 per unit for proceeds of \$333,000. 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 \$0.708 per common share for a period of 12 months. The warrants expiry date was later amended to be 24 months from date of issue.

**REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS**

On 6 July 2015, the Company completed a private placement and issued 1,200,200 units at a price of \$0.354 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 \$0.708 per common share for a period of 12 months.

On 4 May 2015, the Company issued 2,161,927 common shares to third parties for services rendered. The estimated fair value of the shares at the time of issuance was \$0.142 per share. The Company recorded consulting fees of \$306,222 in connection with this issuance. 1,412,000 of the common shares were issued to a director of the Company.

On 4 May 2015, the Company issued 2,118,000 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 \$0.142 per share. The Company recorded consulting fees of \$300,000 in connection with this issuance.

On 4 May 2015, the Company issued 2,118,000 common shares to the Company's president pursuant to his employment agreement (Note 11). The estimated fair value of the shares at the time of issuance was \$0.142 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 31 October 2014 and \$75,000 during the year ended 31 October 2015.

On 4 May 2015, pursuant to a consulting and services agreement that was effective 1 January 2015, the Company issued 5,042,958 common shares to third parties for services rendered. The estimated fair value of the shares at the time of issuance was \$0.142 per share. The Company recorded consulting fees of \$714,300 in connection with the issuance. 600,100 of the common shares were issued to a director of the Company.

On 4 May 2015, the Company issued 14,120 common shares to a third party to satisfy an obligation to issue shares.

On 4 May 2015, the Company issued 205,917 common shares on conversion of a loan with a balance of \$35,000.

On 4 May 2015, the Company issued 437,834 units on the conversion of a convertible loan of \$50,000 plus accrued interest that was issued during the year ended 31 October 2013. 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 \$0.142 per common share for a period of two years.

On 10 December 2014, the Company completed a private placement and issued 1,341,400 common shares at a price of \$0.142 per share for proceeds of \$190,000.

**2) Shares to be Issued**

On 16 July 2015, a third party agreed to waive the Company's obligation to issue the 1,171,960 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 \$0.354 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 31 October 2014, there were 14,120 common shares to be issued relating to a subscription of \$5,000 received prior to 31 October 2011. These common shares were issued during the year ended 31 October 2015.

At 31 October 2014, shares to be issued includes 141,200 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 \$0.354 per share, being their estimated fair value at repayment date of the loan. During the year ended 31 October 2015, the lender agreed to waive the Company's obligation to issue these shares.

There was no obligation to issue shares as at 31 October 2016.



### 3) Warrants

As of 31 October 2016, there were 2,628,426 share purchase warrants outstanding as follows:

- 437,834 warrants which expire on 4 May 2017 and are exercisable at the lower of \$0.354 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 as at 31 October 2016 was determined to be \$11,463 (2015 - \$33,034) determined using the Black-Scholes option pricing model assuming a volatility of 125%, a risk free rate of 0.55%, a dividend yield of 0% and an expected remaining life of six months.
- 1,200,200 warrants which originally expired on 6 July 2016 and are exercisable at \$0.708 per share. During the year the Company extended the expiration date of these warrants to 6 July 2017.
- 940,392 warrants which expire on 23 December 2016 and are exercisable at \$0.708 per share. Subsequent to 31 October 2016, the Company extended the expiration date of these warrants to 23 December 2017.
- 50,000 warrants which expire on 3 February 2018 are exercisable at \$0.35 per share.

WARRANT ACTIVITY	31 October 2016	Weighted Average Exercise Price	31 October	
			2015	Exercise Price
Balance – Beginning of Year	1,638,034	\$ 0.61	-	\$ -
Issued	990,392	0.69	1,638,034	0.61
Balance – End of Year	2,628,426	\$ 0.64	1,638,034	\$ 0.61

### 4) Stock Options

On 7 April 2016, the Company granted 2,080,000 stock options with an exercise price of \$0.25 and expiry date ten years from the date of grant. The grant date fair value of the stock options was estimated to be \$519,731 based on a Black-Scholes calculation using a volatility of 218.08%, an expected life of 10 years, a risk free interest rate of 1.78% and a dividend yield of Nil%.

On 24 July 2016, the Company granted 30,000 stock options with an exercise price of \$0.25 and expiry date five years from the date of grant. The grant date fair value of the stock options was estimated to be \$5,127 based on a Black-Scholes calculation using a volatility of 150.72%, an expected life of 5 years, a risk free interest rate of 0.82% and a dividend yield of Nil%.

On 13 July 2016, the Company granted 480,000 stock options with an exercise price of \$0.25 and expiry date four years from the date of grant. The grant date fair value of the stock options was estimated to be \$89,981 based on a Black-Scholes calculation using a volatility of 147.4%, an expected life of 4 years, a risk free interest rate of 0.55% and a dividend yield of Nil%.

Stock option activity during the year is summarized as follows:

STOCK OPTION ACTIVITY	31 October 2016	Weighted Average Exercise Price	31 October	
			2015	Exercise Price
Balance – Beginning of Year	-	\$ -	-	\$ -



## REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS

Granted	2,590,000	0.25	-	-
<b>Balance – End of Year</b>	<b>2,590,000</b>	<b>\$ 0.25</b>	<b>-</b>	<b>\$ -</b>

As at 31 October 2016 and 31 October 2015 the Company had the following stock options outstanding:

Expiry date	Exercise Price	31 October	31 October	31 October
		2016	2016	2015
		Outstanding	Exercisable	Outstanding
April 7, 2026	0.25	2,080,000	2,080,000	-
July 4, 2021	0.25	30,000	30,000	-
July 13, 2020	0.25	480,000	480,000	-
		<b>2,590,000</b>	<b>2,590,000</b>	<b>-</b>

For the year ended 31 October 2016 and the year ended 31 October 2015, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

	31 October	31 October
	2016	2015
<b>Total Options Granted</b>	<b>2,590,000</b>	-
Weighted average exercise price	\$ 0.25	\$ -
Weighted average remaining life of the outstanding options in years	8.32	
Estimated grant date fair value	\$ 614,839	\$ -
Estimated grant date fair value per option	\$ 0.24	\$ -

## LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements were prepared on a “going concern” basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Cash used in operating activities during the year ended 31 October totalled \$528,522 (comparative period \$643,628).

No cash was raised or used in investing activities during the years ended 31 October 2015 and 2016.

Cash raised from financing activities during the year ended 31 October 2016 totalled \$500,257 (comparative period \$685,000).

The Company had a working capital deficit of \$1,354,427 as at 31 October 2016 compared to working capital deficiency of \$696,030 as of 31 October 2015. The change in working capital was primarily due to the declining value of shares held for sale.

The Company maintained cash and cash equivalents of \$13,112 as of 31 October 2016 (31 October 2015 - \$41,377) to meet short-term business requirements. At 31 October 2016, the Company had obligations as follows:

- Accounts payable and accrued liabilities of \$1,082,482 (Comparative Period - \$550,296) all due within 90 days from period-end; and



## REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS

- Loans payable of \$288,486 (Comparative Period - \$160,577) all due within 90 days from period-end.
- Derivatives liability of \$11,463 (Comparative Period - \$33,034) all due within 90 days from period-end.

The Company will need to raise capital to finance its administrative overhead, commitments, and continued software development. This need may be adversely impacted by a lack of normally available financing based on the timing needed by, or on terms acceptable to, the Company. The Company may seek financing through joint venture agreements, debt and equity financings, and rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time. While management has been successful in raising additional finances in the past, there can be no assurance it will be able to do so in the future.

### PROPOSED TRANSACTIONS

The Company does not have any new or proposed transactions contemplated as of the date of this report.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements as at 31 October 2016 and as at the date hereof.

### RELATED PARTY TRANSACTIONS

#### 1) Related party transactions

Transactions with related parties for the years ended October 31, 2016 and 2015 are as follows:

#### RELATED PARTY DISCLOSURE

Principal Position	Fiscal Period <sup>(i)</sup>	Remuneration or Fees <sup>(ii)</sup>	Interest
Clayton Moore, CEO and director – consulting fees	2016	\$ 170,000	\$ -
	2015	\$ 418,000 <sup>(iii)</sup>	\$ -
Gord Jessop, President and director – consulting fees	2016	\$ 145,000	\$ -
	2015	\$ 169,000 <sup>(iv)</sup>	\$ 4,500
Midland Management, a company controlled by the former CFO – consulting fees	2016	\$ 23,625	\$ -
	2015	\$ -	\$ -
0743886 BC Ltd, a company controlled by a director of the Company.	2016	\$ -	\$ -
	2015	\$ 105,000 <sup>(v)</sup>	\$ -
Fraser McDougall, director	2016	\$ -	\$ -
	2015	\$ 200,000 <sup>(vi)</sup>	\$ -

(i) For the years ended 31 October 2016 and 31 October 2015.

(ii) Remuneration or fees were paid or accrued to the related party.

(iii) Includes consulting fees totalling \$300,000 paid in the form of common shares.

(iv) Includes consulting fees totalling \$75,000 paid in the form of common shares.

(v) Includes consulting fees totalling \$85,000 paid in the form of common shares.

(vi) Includes consulting fees totalling \$200,000 paid in the form of common shares.

The above transactions are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### 2) Related party balances

**REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS**

Included in accounts payable and accrued liabilities as at 31 October 2016 is \$269,830 (31 October 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 8)

Included in accounts payable and accrued liabilities as at 31 October 2016 is \$213,769 (31 October 2015: \$90,416) to a director and the President of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment. (Note 8)

Included in accounts payable and accrued liabilities as at 31 October 2016 is \$7,000 (31 October 2015: \$7,000) due to a relative of a director and the CEO of the Company. This amount is unsecured, non-interest bearing with no fixed terms of repayment. (Note 8)

Included in loans payable as at 31 October 2016 is \$72,500 (31 October 2015: \$72,500) plus accrued interest of \$16,270 (31 October 2015: \$16,270) owing to the President of the Company. The loan is not secured. \$60,000 of the loan bears interest at 10% per year and was repayable on 14 May 2013. Effective 1 July 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 9)

**3) Commitments with related parties**

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

Salary of:

- \$5,000 per month for the 12 month period ended 31 December 2014;
- \$7,500 per month for the 12 month period ended 31 December 2015; and
- \$13,000 per month thereafter.

Common share issuances:

- 529,500 shares on or before 31 March 2014 (issued);
- 529,500 shares on or before 30 June 2014 (issued);
- 529,500 shares on or before 30 September 2014 (issued); and
- 529,500 shares on or before 31 December 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.

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

Salary of:

- \$10,000 per month for the 24 month period ended 31 December 2015; and
- \$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.



## **FINANCIAL INSTRUMENTS**

### **1) Financial instrument classification and measurement**

Financial instruments of the Company carried on the statement of financial position are carried at amortized cost. There are no significant differences between the carrying value of financial instruments and their estimated fair values as at 31 October 2016 and 2015. There have been no changes in levels during the year.

The Company classifies the fair value of these transactions according to the following hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

### **2) Fair values of financial assets and liabilities**

The Company's financial instruments include cash, accounts payable and accrued liabilities, loans payable, and derivative liability. As at 31 October 2016 and, the carrying value of cash is at fair value. Accounts payable and accrued liabilities and loans payable approximate their fair value due to their short-term nature.

### **3) Market risk**

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is not exposed to significant market risk.

### **4) 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.

### **5) 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.

### **6) 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.

### **7) Liquidity risk**



**REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company controls liquidity risk by ensuring that it has sufficient cash resources to pay for its financial obligations. As at 31 October 2016, the Company had a cash balance of \$13,112 to settle current liabilities of \$1,382,431 which are due within one year. Accordingly, the Company is exposed to significant liquidity risk.

**CAPITAL MANAGEMENT**

The Company manages its cash and common shares as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue its strategic plan. The Company manages and performs regular review of financial information. The Company does not have any externally imposed capital requirement to which it is subject.

There was no change in the Company's approach to capital management during the year.

**APPROVAL**

The Board of Directors of the Company have approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

**A CAUTIONARY TALE**

This document contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Corporation, its subsidiaries and its projects, the future supply, demand, inventory, production and price of minerals, the estimation of reserves and resources, the realization of reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of resources; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the resource industry; political instability, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Respectfully submitted



On Behalf of the Board of Directors

**"Clayton Moore"**

Clayton Moore, CEO