



## **NETCENTS TECHNOLOGY INC.**

**(FORMERLY NETCENTS SYSTEMS LTD.)**

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017**

Stated in Canadian Funds

#### **NOTICE OF NO AUDITOR REVIEW OF**

Condensed Interim Consolidated Financial Statements

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

The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements.

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## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of NetCents Technology Inc.:

Management is responsible for the preparation and presentation of the accompanying condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the condensed interim consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information presented. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Company's external auditors.

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

We draw attention to Note 1 in the condensed interim consolidated financial statements which indicates the existence of a material uncertainty that may cast substantial doubt on the Company's ability to continue as a going concern.

The condensed interim consolidated financial statements were approved by the Board of Directors on 1 October 2018 and were signed on its behalf by:

*"Clayton Moore"*

\_\_\_\_\_  
Clayton Moore, CEO

*"Gord Jessop"*

\_\_\_\_\_  
Gord Jessop, President

**NETCENTS TECHNOLOGY INC.****(FORMERLY NETCENTS SYSTEMS LTD.)**Canadian Funds  
(Unaudited)**Statement 1****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Note	As at	
		31 July 2018	31 October 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 86,530	\$ 27,249
Digital currencies	(7)	63,261	-
Restricted cash and funds due from processors	(8)	31,259	203,608
Assets held for clients	(9)	254,559	120,844
Prepaid amounts and deposits		220,387	45,889
Proceeds of coin sale	(10)	3,341,041	77,933
Due from NCCO Foundation		140,542	-
		<b>4,137,939</b>	<b>475,523</b>
<b>Non-current Assets</b>			
Due from related parties	(16)	78,125	-
Equipment	(11)	361,933	14,995
Intangible assets	(12)	393,805	129,351
		<b>\$ 4,971,802</b>	<b>\$ 619,869</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 998,773	\$ 513,852
Due to related parties	(16)	-	305,761
Client deposits	(9)	254,559	120,844
Funds due to merchants	(8)	425,514	835,251
Loans payable	(13)	71,850	104,043
Convertible loan	(14)	898,738	-
Deferred revenue		31,183	69,248
Provision for coin sale	(10)	3,341,041	77,933
		<b>6,021,658</b>	<b>2,026,932</b>
<b>EQUITY</b>			
Share capital	(15)	12,579,713	6,269,920
Equity portion convertible debt	(14)	35,631	-
Contributed surplus – options	(15)	4,481,055	755,839
Contributed surplus – warrants	(15)	1,003,631	346,000
Deficit		(19,149,886)	(8,778,822)
		<b>(1,049,856)</b>	<b>(1,407,063)</b>
		<b>\$ 4,971,802</b>	<b>\$ 619,869</b>
Nature of operations and going concern	(1)	Commitments	(17)
Basis of preparation – statement of compliance	(2)	Subsequent events	(21)

The condensed interim consolidated financial statements were approved by the Board of Directors on 1 October 2018 and were signed on its behalf by:

"Gord Jessop"

Gord Jessop, Director

"Clayton Moore"

Clayton Moore, Director

# NETCENTS TECHNOLOGY INC.

(FORMERLY NETCENTS SYSTEMS LTD.)

Canadian Funds  
(Unaudited)

Statement 2

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Note	Nine Months Ended 31 July 2018	Nine Months Ended 31 July 2017	Three Months Ended 31 July 2018	Three Months Ended 31 July 2017
<b>CONTINUING OPERATIONS</b>					
<b>Income</b>					
Processing revenue		\$ 67,645	\$ 54,480	\$ 8,923	\$ 19,408
<b>Cost of sales</b>		<b>8,678</b>	30,049	<b>(2,145)</b>	12,931
<b>Gross profit</b>		<b>58,967</b>	24,431	<b>11,068</b>	6,477
<b>Operating Expenses</b>					
Amortization of intangible assets	(12)	127,221	42,745	83,535	20,369
Amortization of tangible assets	(11)	36,655	1,250	22,998	1,250
Consulting fees	(16)	291,648	323,549	151,882	144,600
Marketing and investor relations		706,140	55,254	86,049	21,152
Office		175,074	37,813	113,625	(4,294)
Professional fees		376,979	115,028	(6,581)	62,169
Rent		301,785	69,185	126,868	30,099
Salaries and wages	(16)	381,406	-	187,384	-
Share based payments	(15)	5,354,891	187,000	397,529	187,000
Transaction expense	(10)	135,434	-	-	-
Transfer agent and filing fees		22,866	32,634	10,282	20,918
Travel		349,917	17,052	122,113	12,052
Website costs		22,909	-	-	-
		<b>8,282,925</b>	881,510	<b>1,295,684</b>	495,315
<b>Loss from Operations</b>		<b>(8,223,958)</b>	(857,079)	<b>(1,284,616)</b>	(488,838)
<b>Other Income (Loss)</b>					
Loss on settlement of debt	(13)	(1,964,625)	-	-	-
Gain on sale of equipment		6,166	-	6,166	-
Revaluation of digital currencies		(21,121)	-	(21,121)	-
Foreign exchange loss		(167,254)	(8,473)	(39,263)	(39,669)
Interest expense		(272)	(60,955)	479	17,558
Fair value change of derivative liability		-	11,463	-	-
		<b>(2,147,106)</b>	(57,965)	<b>(53,739)</b>	(22,111)
<b>Net Loss and Comprehensive Loss for the Period</b>		<b>\$ (10,371,064)</b>	(915,044)	<b>\$ (1,338,355)</b>	\$ (466,727)
<b>Basic Loss per Common Share</b>		<b>\$ (0.25)</b>	(0.03)	<b>\$ (0.03)</b>	(0.02)
<b>Diluted Loss per Common Share</b>		<b>\$ (0.23)</b>	(0.03)	<b>\$ (0.03)</b>	(0.02)
<b>Weighted Average Number of Shares Outstanding</b>					
<b>Basic</b>	(18)	<b>40,919,398</b>	29,760,669	<b>42,352,666</b>	30,967,448
<b>Diluted</b>	(18)	<b>45,185,191</b>	29,760,669	<b>46,618,460</b>	30,967,448

# NETCENTS TECHNOLOGY INC.

(FORMERLY NETCENTS SYSTEMS LTD.)

Canadian Funds

(Unaudited)

## Statement 3

	# of Shares	Amount	Equity component of convertible debt	Contributed surplus – options	Contributed surplus – warrants	Deficit	Shareholders' Equity
<b>BALANCE 31 OCTOBER 2016</b>	28,763,061	\$ 4,124,555	\$ -	\$ 614,839	-\$ -	(5,997,877)	\$ (1,258,483)
Shares issued for cash	3,404,640	1,156,624	-	-	-	-	1,156,624
Share issuance costs	-	(146,667)	-	-	60,000	-	(86,667)
Shares issued for debt settlement	831,716	164,192	-	-	-	-	164,192
Shares issued for services	(70,600)	(25,000)	-	-	-	-	(25,000)
Share subscriptions received	-	20,000	-	-	-	-	20,000
Fair value of options issued	-	-	-	187,000	-	-	187,000
Net loss for the period	-	-	-	-	-	(915,044)	(915,044)
<b>BALANCE 31 JULY 2017</b>	32,928,817	5,293,704	-	801,839	60,000	(6,446,194)	(757,378)
Shares issued for services	818,668	406,515	-	-	-	-	406,515
Shares issued for debt settlement	892,766	505,599	-	-	286,000	-	791,599
Shares issued for exercise of options	150,000	76,000	-	(46,000)	-	-	30,000
Share issuance costs	-	(158,565)	-	-	-	-	(158,565)
Net loss for the period	-	-	-	-	-	(2,332,628)	(2,332,628)
<b>BALANCE 31 OCTOBER 2017</b>	34,790,251	6,269,920	-	755,839	346,000	(8,778,822)	(1,407,063)
Shares issued for services	2,051,538	1,593,500	-	755,839	346,000	-	1,593,500
Shares issued for services, cancelled	(1,403,470)	-	-	-	-	-	-
Shares issued for debt settlement	280,000	1,412,000	-	-	-	-	1,412,000
Shares issued for exercise of options	869,940	395,018	-	(177,533)	-	-	217,485
Shares issued for exercise of warrants	4,161,137	2,409,275	-	-	-	-	2,409,275
Units issued for cash	1,116,071	500,000	-	-	-	-	500,000
Warrants issued for debt settlement	-	-	-	-	622,000	-	622,000
Stock based compensation	-	-	-	3,902,749	-	-	3,902,749
Convertible debt equity component	-	-	35,631	-	35,631	-	71,262
Net loss for the period	-	-	-	-	-	(10,371,064)	(10,371,064)
<b>BALANCE 31 JULY 2018</b>	41,865,467	\$ 12,579,713	\$ 35,631	\$ 4,481,055	\$ 1,003,631	\$ (19,149,886)	\$ (1,049,856)

# NETCENTS TECHNOLOGY INC.

(FORMERLY NETCENTS SYSTEMS LTD.)

Canadian Funds

(Unaudited)

**Statement 4**

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended 31 July 2018	Nine Months Ended 31 July 2017	Three Months Ended 31 July 2018	Three Months Ended 31 July 2017
<b>OPERATING ACTIVITIES</b>				
<b>Net Loss for the Period</b>	\$ (10,371,064)	\$ (915,044)	\$ (1,338,355)	\$ (466,727)
<b>Items not Affecting Cash</b>				
Share based payments	5,976,347	187,000	397,529	187,000
Loss on settlement of debt	1,964,625	-	-	-
Amortization of intangible assets	127,221	-	83,535	-
Amortization of tangible assets	36,655	43,995	22,998	21,619
Interest expense	-	60,955	-	17,558
Change in fair value of derivative liability	-	(11,463)	-	-
Cancellation of shares for services	-	(25,000)	-	-
Revaluation of digital currencies	21,121	-	21,121	-
	<b>(2,245,095)</b>	<b>(659,557)</b>	<b>(813,172)</b>	<b>(240,550)</b>
<b>Change in Non-cash Working Capital Items</b>				
Prepaid amounts and other assets	(174,498)	(2,634)	37,705	17,614
Transaction processing receivable	-	(170,483)	-	(170,483)
Purchase of digital assets	(84,742)	-	44,837	-
Accounts payable and accrued liabilities	573,053	(5,488)	461,088	(63,387)
Funds due to merchants	(409,737)	497,053	32,792	121,296
Deferred revenue	(38,065)	-	(1,549)	-
	<b>(2,379,084)</b>	<b>(341,108)</b>	<b>(238,299)</b>	<b>(335,510)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of equipment	(471,725)	(16,661)	(159,640)	(16,661)
Software development	(391,675)	(75,037)	(61,470)	(36,727)
	<b>(863,400)</b>	<b>(91,698)</b>	<b>(221,110)</b>	<b>(53,388)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from share issuances, net of costs	500,000	1,156,624	-	1,156,624
Share issuance costs	-	(86,667)	-	(86,667)
Proceeds from exercise of options	395,018	-	30,000	-
Proceeds from exercise of warrants	2,409,275	-	-	-
Transfer to restricted cash	172,349	-	361,463	-
Proceeds from loans payable	934,369	605,000	-	205,000
Advances to related parties	(383,886)	-	-	-
Repayment of loans payable	(584,818)	(639,955)	(344,499)	(267,407)
Share subscriptions received	-	20,000	-	-
Due from NCCO Foundation	(140,542)	-	(140,542)	-
	<b>3,301,765</b>	<b>1,055,002</b>	<b>(93,578)</b>	<b>1,007,550</b>
<b>Net increase (decrease) in Cash</b>	<b>59,281</b>	<b>622,196</b>	<b>(552,987)</b>	<b>618,652</b>
Cash position – beginning of period	27,249	13,112	639,517	16,656
<b>Cash Position – End of Period</b>	<b>\$ 86,530</b>	<b>\$ 635,308</b>	<b>\$ 86,530</b>	<b>\$ 635,308</b>

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
(Unaudited)

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1) Nature of operations and going concern

NetCents Technology Inc. (the “Company”) is engaged in software development for the payment processing industry. On 10 February 2016, the Company obtained a public listing on the Canadian Securities Exchange by means of a reverse takeover. The Company’s stock symbol is NC. The head office and the registered and records office of the Company are located at 1000 – 1021 West Hastings Street (MNP Tower), Vancouver, BC, V3C 1E3.

These condensed interim consolidated financial statements (the “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. Historically, the Company has not earned enough 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, its ability to attain profitable operations and generate funds there from or raise equity capital or borrowings sufficient to meet current and future obligations. As noted below the Company has accumulated significant losses to date.

	31 July 2018	31 October 2017
Working capital surplus (deficiency)	\$ (1,883,719)	\$ (1,551,409)
Accumulated deficit	\$ (19,149,886)	\$ (8,778,822)

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 equity financing including private placement of common shares and the exercise of options and warrants, as well as debt financing including loans from directors and companies controlled by directors; however, there can be no assurance that this support will continue. If the going concern assumption were not appropriate for these Financial Statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used, and such adjustments could be material.

### 2) Basis of preparation – statement of compliance

These Financial Statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting. The Financial Statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting except for cash flow information.

Certain comparative figures have been reclassified to conform to the restated financial statement presentation for the current period.

Since the unaudited Financial Statements do not include all disclosures required by IFRS for annual consolidated financial statements, they should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended 31 October 2017.

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of condensed interim consolidated financial statements in accordance with IAS 1 requires the use of certain critical accounting estimates, judgements, and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are



## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
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based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These Financial Statements were authorised for issue by the Board of Directors on 12 August 2018 and have been prepared under the historical cost convention, except for certain financial instruments.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Certain comparative figures have been reclassified to conform to the restated financial statement presentation adopted for the current period.

#### **3) Summary of significant accounting policies**

The accounting policies and methods of computation followed in preparing these Financial Statements are the same as those followed in preparing the most recent audited annual Financial Statements. For a summary of significant accounting policies, please refer to the Company's audited annual Financial Statements for the year ended 31 October 2017.

#### **4) Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount and classification of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments and areas involving estimates, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognized in the financial statements.

##### **a) Key sources of estimation uncertainty**

###### Share-based payments

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in Note 4 of the annual audited Financial Statements. The fair value of stock options granted is measured using the Black-Scholes option pricing model, which was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's stock options have characteristics significantly different from those of traded options, and changes in the highly subjective input assumptions can materially affect the calculated values. The fair value of stock options granted using Black-Scholes do not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

###### Income taxes

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
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#### b) Key sources of judgement uncertainty

##### Going concern evaluation

As discussed on note 1, these Financial Statements have been prepared under the assumptions applicable to a going concern. If the going concern assumption were not appropriate for these Financial Statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used and such adjustments could be material.

The Company reviews the going concern assessment at the end of each reporting period. There were no material changes to the assessment as at 31 July 2018.

##### Proceeds received on sales of NCCO

The Company determined that it has a constructive obligation to the purchasers of NCCO coins to set-up and advance all funds received to an independent not-for-profit foundation (the "NCCO Foundation"). These funds will be used to back the value of the NCCO coins for the benefit of the NCCO coin holders. The constructive obligation results from information that the Company had communicated through its White Paper and subsequent news releases prior to and during the time that the NCCO coins were sold. Accordingly, a liability has been recorded that reflects the amount the Company must advance to the NCCO Foundation in order to settle this obligation. See Note 10.

##### Presentation of assets held for clients

The Company holds funds in trust for clients that use the NetCents ("NC") Client Wallet. Funds held include fiat and cryptocurrency funds. The Company has determined that these are assets of the Company with a corresponding liability due to its customers on the basis that:

- The Company has responsibility for stewardship of the client's deposits related to loss or theft of cryptocurrency assets, external cryptocurrency exchanges filing for bankruptcy or banks where fiat funds are held filing for bankruptcy;
- The funds are co-mingled with the Company's operating fiat and cryptocurrency holdings;
- The funds are not "ring-fenced" and may be required to fund general claims in respect to an insolvency or bankruptcy of the Company; and
- The Company is able to derive a future economic benefit from these assets in the form of revenues earned when users withdraw funds from the NC Client Wall and to settle the corresponding customer deposit liability. See Note 9.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
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#### 5) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company is currently assessing the impact, if any, that these standards might have on its Financial Statements.

##### a) IFRS 9, Financial Instruments

In July 2014, the IASB issued IFRS 9, Financial Instruments (IFRS 9). IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. It also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption of the new standard permitted. The Company does not intend to early adopt IFRS 9. Management is currently reviewing the impact that this standard will have on the Company's Financial Statements.

##### b) IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued and replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC-31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five – step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption of the new standard permitted. The Company does not intend to early adopt IFRS 15. Management is currently reviewing the impact that this standard will have on the Company's Financial Statements.

##### c) IFRS 16, Leases

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. This standard is effective for annual reporting periods on or after 1 January 2019. Early adoption is permitted if IFRS 15 has also been adopted. Management is currently reviewing the impact that this standard will have on the Company's Financial Statements.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
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#### 6) Financial instruments and risk management

##### a) 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 2017 and 31 July 2018. There have been no changes in levels during the period.

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.

##### b) Fair values of financial assets and liabilities

The Company's financial instruments include cash, digital currencies, restricted cash and funds due from processors, assets held for clients, amounts due to/from related parties, accounts payable and accrued liabilities, client deposits, loans payable, funds due to merchants, and loans payable and amounts due to related parties. As at 31 July 2018 and 31 October 2017, the carrying value of cash is at fair value. The remaining financial instruments approximate their fair value due to their short-term nature.

##### c) 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.

##### d) 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 amounts due from payment processors. During the year period 31 July 2018, the Company recorded an allowance of \$nil (2017 - \$392,722) due from a payment processor where collection is uncertain. The Company's secondary 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.

##### e) 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.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
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#### f) 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. As at 31 July 2018, the Company held financial liabilities denominated in foreign currencies totalling \$492,911 (31 October 2017 - \$858,348), as well as financial assets denominated in foreign currencies totalling \$111,136 (31 October 2017 - \$232,257). A 5% shift in exchange rates would result in a foreign exchange gain or loss of approximately \$19,000. Accordingly, the Company is moderately exposed to foreign currency risk.

#### g) Liquidity risk

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. The Company manages liquidity risk by restricting cash reserves to offset client deposits and funds due to merchants. As at 30 July 2018, the Company had an unrestricted cash balance of \$86,530 to settle current liabilities, other than client deposits, provision for coin sale, and funds due to merchants for which cash reserves have been restricted, totalling \$2,000,544 which are due within one year. Accordingly, the Company is significantly exposed to liquidity risk.

#### 7) Digital currencies

As at 31 July 2018, digital currencies held by the Company include Bitcoin ("BTC"), Ethereum ("ETH") and Litecoin ("LTC"), with a fair value of \$63,621 (2017 - \$nil). Digital currencies are recorded at their fair value on the date they are received, and are revalued to their current market value at each reporting date. Fair value is determined by the spot closing rate of the currency from <https://cryptocurrencycharts.info>.

	31 July 2018	31 October 2017
Bitcoin	\$ 36,385	\$ -
Ethereum	24,631	-
Litecoin	2,605	-
	<b>\$ 63,621</b>	<b>\$ -</b>

#### 8) Funds due from payment processors / to merchants

In providing merchant services, the Company temporarily holds funds for customers while the funds are in transit. As at 31 July 2018, the Company had funds due from processors in the amount of \$nil (31 October 2018 - \$583,014) to settle funds due to merchants in the amount of \$425,514 (31 October 2017 - \$835,251). Due to uncertainty of collecting funds owed from one payment processor, an allowance was recorded in the amount of \$379,406 and charged to bad debt expense for the year ended October 31, 2017.

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### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
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#### 9) Assets held for clients

The Company holds funds in trust for clients that use the NC client wallet. Users transfer fiat and cryptocurrency funds into their NC client wallets enabling them to purchase and sell cryptocurrencies. As at 31 July 2018, the Company held client funds totalling \$254,559 (2017 - \$120,844) in the NC client wallets.

The assets held for clients is broken down as follows:

Assets held for clients	31 July 2018	31 October 2017
Cash	\$ 244,090	\$ -
Digital currencies	10,469	120,844
	<b>\$ 254,559</b>	<b>\$ 120,844</b>

All assets held for clients and the corresponding liability are carried at their fair value.

This fair value measurement is considered a level 1 fair value measurement on the basis that these digital currencies are traded on an active market. However, to date prices have been extremely volatile.

The fair value of the NCCO coin is considered a level 2 fair value measurement on the basis that to date NCCO coins have been only thinly traded on the NetCents Exchange. The fair value of the NCCO coins was determined based on the most recent trade prior to the reporting period end date.

#### 10. Proceeds from the sale of coin

As at 31 July 2018, the Company has received proceeds of \$3,341,041 (31 October 2017 - \$77,933) in connection with the sale of NCCO coins.

To purchase the coin, clients deposited funds (both cryptocurrency and fiat) into the NetCents wallet.

For the coin sale transactions, the Company received funds from the client's wallet in both fiat currencies (CAD, USD and Euro), and, cryptocurrencies (BTC and ETH). The Company converted the funds received into Canadian dollars using the spot closing rate of the currency from <https://cryptocoincharts.info>, and the closing exchange rate between Canadian dollars, US dollars and Euros as at period end.

The Company is recording the proceeds from the sale of the coin as a liability being the amount required to fulfil a constructive obligation to the coin holders to set up the NCCO Foundation and transfer all proceeds from the sale of the treasury coins the NCCO Foundation whereby the NCCO foundation will use the funds to back the value of the NCCO coin for the benefit of the coin holders.

The foundation was registered and filed under the general registry of the Cayman Islands on July 12<sup>th</sup>, 2018

The NCCO Foundation's role is to be an independent, non-profit organization with a purpose to support the value of the coin by managing:

- the release of the coins according through its transparent release mechanism;
- the network of nodes for transaction authorizations;
- the treasury reserve account; and
- evolving the coin's technology for the benefit of all of the coin holders.

On April 24<sup>th</sup>, 2018, the Company transferred all proceeds from the coin sale from the Company bank account to a trust account managed by legal counsel.

## NETCENTS TECHNOLOGY INC.

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The funds are being held by Harper Grey LLP pursuant to an undertaking provided to the Executive Director of the British Columbia Securities Commission ("BCSC"). The Company has a legal obligation to transfer the funds to the NCCO now that it has been established, and therefore the company does not consider itself to have any discretion to release the funds or use the funds for any other purpose.

The Company intends to transfer the funds to the NCCO as soon as is reasonably possible. Pursuant to the undertaking under which the funds are currently held by Harper Grey LLP, the Company must provide the Executive Director of the BCSC with 14 days written notice prior to transferring the funds to the NCCO. The Company intends to provide such written notice shortly.

Fees incurred on the transfer of funds into the wallets and the foreign currency translations were expensed by the Company. The Company also incurred exchange differences on the conversion on the coin transactions which resulted in charges of \$135,434 which has been reflected as an expense for the three months period ended January 31, 2018. The Company has provided for the transactional expenses in the financial statements although the Company anticipates that these costs will be recovered from the NCCO once it has been established.

#### 11) Equipment

	Equipment
<b>COST</b>	
<b>Balance at 31 October 2017</b>	\$ 16,661
Additions	403,677
Disposal	(23,874)
<b>Balance at 31 July 2018</b>	<b>\$ 396,464</b>
<b>DEPRECIATION</b>	
<b>Balance at 31 October 2017</b>	\$ 1,666
Additions	36,655
Disposal	(3,790)
<b>Balance at 31 July 2018</b>	<b>\$ 34,531</b>
<b>CARRYING AMOUNTS</b>	
<b>At 31 October 2017</b>	\$ 14,995
<b>At 31 July 2018</b>	<b>\$ 361,933</b>

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
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#### 12) Intangible assets

	Software Development
<b>COST</b>	
<b>Balance at 1 November 2016</b>	\$ 95,944
Additions	98,083
<b>Balance at 31 October 2017</b>	\$ 194,027
Additions	391,675
<b>Balance at 31 July 2018</b>	<b>\$ 585,702</b>
<b>DEPRECIATION</b>	
<b>Balance at 1 November 2016</b>	\$ -
Additions	64,676
<b>Balance at 31 October 2017</b>	\$ 64,676
Additions	127,221
<b>Balance at 31 July 2018</b>	<b>\$ 191,897</b>
<b>CARRYING AMOUNTS</b>	
<b>At 31 October 2017</b>	\$ 129,351
<b>At 31 July 2018</b>	<b>\$ 393,805</b>

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.

During the period ended 31 July 2018, the Company capitalized \$391,675 (31 October 2017: \$98,083) of costs incurred in updating and enhancing the functionality of its payment processing software. These costs capitalized during the period ended 31 July 2018 include \$141,358 representing the estimated fair value of 240,000 options granted to a consultant for services performed on the development of the software (Note 14).

#### 13) Loans payable

	31 July 2018	31 October 2017
<b>Balance – Beginning of period</b>	<b>\$ 104,043</b>	\$ 288,486
Proceeds from loans	-	605,000
Interest expense	751	89,660
Prepaid interest expense	-	(667)
Settlement of loans payable	<b>(32,944)</b>	(878,436)
<b>Balance – End of period</b>	<b>\$ 71,850</b>	\$ 104,043

Details of loans outstanding during the periods ended 31 July 2018 and 31 October 2017 are as follows:



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### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

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Pursuant to an agreement entered into on 2 October 2015, the Company was advanced \$40,000. The loan was repayable in six months from the date of the agreement and bears interest at a rate of 10% per annum. During the year ended 31 October 2017, the principal amount of \$40,000 was paid and accrued interest of \$6,215 remained outstanding. On 29 November 2017, the Company entered into a debt settlement agreement with a lender to settle loan payable in the amount of \$6,215 by issuing 100,000 common shares of the Company. On the date of issuance, the shares had a fair value of \$458,000; accordingly, the Company recognized a loss on settlement of debt in the amount of \$451,785.

Pursuant to an agreement entered into on 31 May 2016, the Company was loaned \$20,000 bearing interest at 15% per year with a term of six months. The Company signed a debt settlement agreement whereby the principal and the interest in the amount of \$20,000 and \$7,081 (31 October 2017 - \$5,581) respectively, has been settled in September 2017 for 500,000 common shares of the Company as part of the 748,068 common shares disclosed in Note 15b.

Pursuant to an agreement entered into on 14 November 2011, the Company was loaned \$60,000 from the Company's president. The loan bears interest at a rate of 10% per annum and was repayable on 14 May 2013. Effective 1 July 2015, the lender agreed that interest would stop accruing on the loan. At 30 April 2018, the outstanding loan balance was \$52,000 and there was outstanding interest of \$16,270 (31 October 2017: \$16,270).

Other loans totalling \$3,500 (31 October 2017: \$3,500) are unsecured, non-interest bearing with no fixed terms of repayment. Also included in the loan balance at 31 July 2018 is \$478 (31 October 2017: \$477) of accrued interest.

On 12 June 2017, the Company entered into a convertible promissory note for proceeds of \$205,000. The note was interest bearing at a rate of 0.16% per day for the first day, and 0.10% per day thereafter, due on 12 September 2017. The Lender may, at its sole discretion elect, to convert any part of the outstanding balance towards 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. As at 30 April 2018, the loan including interest was repaid in full.

On 3 February 2017, the Company issued a convertible promissory note for proceeds of \$200,000. The note was 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. As at 30 April 2018, the loan and interest were fully repaid.

On 22 November 2016, the Company issued a convertible promissory note for proceeds of \$200,000. The note was 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.

Pursuant to an agreement entered into on 12 October 2016, the Company was loaned \$35,000. The term of the loan was for three months from the agreement date at which time the Company has the option to convert the loan into common shares. On 7 December 2016, the Company signed a debt settlement agreement whereby the principal and interest totalling \$38,248 was settled in exchange for 191,240 common shares of the Company with a fair value of \$49,722 resulting in a loss on settlement of \$11,474.

Pursuant to an agreement entered into on 31 August 2016, the Company was loaned \$30,000 which bears interest at 15% with a term of six months. On 17 January 2017, the Company issued 190,476 common shares with a fair

## NETCENTS TECHNOLOGY INC.

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value of \$39,048 for settlement of a loan payable with a principal totalling \$30,000 resulting in a loss on settlement of \$9,048. At 30 April 2018, the loan and interest were fully repaid.

Pursuant to an agreement entered into on 19 August 2016, the Company was loaned \$37,500 bearing interest at a rate of 12% per year. The term of the loan was seven months with interest prepaid. On 15 March 2017 the Company repaid the loan.

#### **14) Convertible loan**

On 30 April 2018, the Company entered into a convertible loan agreement for net proceeds of \$970,000. The loan is interest bearing of 8% per annum, calculated daily and compounded monthly. At any time prior to maturity date, the lender may elect to convert all but not less than all, of principal amount into common share at a conversion price of \$2.71. As additional consideration for the loan, the Company will issue the lender on closing date 369,000 common share purchase warrants entitling the Lender to subscribe for and purchase up to 369,000 common shares at an exercise price of \$2.71 per warrant. The warrants shall be exercisable for a period of 4 years following the closing date. The Company record the initial fair value of the convertible loan at \$898,738, using a discount rate of 20%, which is managements estimate of the prevailing market rate for a company of similar size and operations. The convertible feature of the conversion rights and warrants was recorded as equity, at an amount of \$35,631 and \$35,630, respectively, on initial recognition.

#### **15) Share capital**

##### **a) Authorized**

Unlimited Class A common shares, without par value.

##### **b) Issued**

As at 31 July 2018 there were 41,865,467 (31 October 2017: 34,790,251) common shares issued and fully paid common shares outstanding.

During the period ended 31 July 2018, the Company issued 120,000 common shares in connection with the exercise of stock options. The stock option had a weighted average exercise price of \$0.25 per option; accordingly, the Company received cash proceeds of \$30,000.

During the period ended 30 April 2018, the Company issued 731,540 common shares in connection with the exercise of warrants. The warrants had a weighted average exercise price of \$0.65 per warrant; accordingly, the Company received cash proceeds of \$382,085.

On 19 April 2018, the Company issued 250,000 common shares of the Company with a fair value of \$677,500 for consulting services.

On 10 April 2018, the Company issued 700,000 common shares for services. These shares will be cancelled subsequent to 30 April 2018; accordingly, no fair value was recognized in connection with the issuances of these shares during the period ended 30 April 2018.

On 19 December 2017, the Company closed a non-brokered private placement for an aggregate of 1,116,071 units of the Company ("Units") for gross proceeds of \$500,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share of the Company at an exercise price of \$0.70 for a period of two years from the date of issuance.

On 7 December 2017, the Company issued 200,000 common shares of the Company with a fair value of \$916,000 for consulting services.

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On 7 December 2017, the Company issued 901,538 common shares for services. These shares were cancelled during the period ended 30 April 2018; accordingly, no fair value was recognized in connection with the issuance of these shares.

On 7 December 2017, the Company issued 100,000 common shares of the Company with a fair value of \$458,000 to settle a liability of \$6,215; accordingly, the Company recognized a loss on settlement of debt in the amount of \$451,785.

On 30 November 2017 the Company entered into a settlement agreement and release with a private company whereby the Company issued 180,000 common shares of the Company and 300,000 warrants in exchange for cash proceeds of \$63,160. Each warrant entitles the holder to acquire an additional common share of the Company at an exercise price of \$0.80 for a period of 24 months from the date of issuance. The fair value of the shares was determined to be \$954,000 and the fair value of the warrants was estimated to be \$622,000 based on a Black Scholes calculation using a volatility of 120%, an expected life of 2 years, a risk-free rate of 1.70% and a dividend yield of Nil%. This settlement resulted in a net loss of \$1,512,840.

During the three months period ended 31 January 2018, the Company issued 749,940 common shares of the Company in connection with the exercise of options. The options had a weighted average exercise price of \$0.25 per option; accordingly, the Company received cash proceeds of \$187,485 in connection with the option exercises.

During the three months period ended 31 January 2018, the Company issued 3,429,597 common shares in connection with the exercise of warrants. The warrants had a weighted average exercise price of \$0.59 per warrant; accordingly, the Company received cash proceeds of \$2,022,098 in connection with the warrant exercises.

On 27 October 2017 the Company issued 892,766 units of the Company ("Units") to a private company to settle a liability of \$267,830. The amount was originally due to the Company's CEO. During the year ended 31 October 2017, the CEO assigned this amount owing to a private company. Each Unit comprised of one common share of the Company and one share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.40 and expire on 17 October 2019. The fair value of the shares was determined to be \$491,021 and the fair value of the warrants was estimated to be \$286,000 based on a Black-Scholes calculation using a volatility of 143%, an expected life of 2 years, a risk-free rate of 1.51% and a dividend yield of Nil%.

In September 2017 the Company issued 150,000 common shares on the exercise of options at an exercise price of \$0.20 per option for proceeds of \$30,000. On issuance, \$46,000 previously recorded in contributed surplus was reclassified to share capital.

In September 2017, the Company issued 748,068 common shares with a fair value of \$381,515 for consulting services.

On 23 June 2017, the Company issued 100,000 common shares at a price of \$0.20 per share for proceeds of \$20,000 relating to share subscriptions received on 24 March 2017.

On 23 June 2017 the Company closed of a private placement and issued 3,304,640 units of the Company ("Units") at a price of \$0.35 per Unit for gross proceeds of \$1,156,624. Each Unit is comprised of one common share of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant is exercisable into one common share of the Company at an exercise price of \$0.50 and expire on June 23, 2019.

In connection with the private placement, the Company issued 232,348 broker's warrants. Each broker's warrant is exercisable into one common share of the Company at an exercise price of \$0.35 and expire on June 23, 2019.

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The fair value of the broker's warrants was estimated to be \$60,000 based on a Black-Scholes calculation using a volatility of 147%, an expected life of 2 years, a risk-free rate of 0.90% and a dividend yield of Nil%.

On 6 February 2017, the Company issued 450,000 common shares with a fair value of \$90,000 for settlement of \$95,944 of debt for services provided for software development resulting in a gain on settlement of \$5,944.

On 17 January 2017, the Company issued 190,476 common shares with a fair value of \$39,048 for settlement of a loan payable with a principal and interest totalling \$30,000 resulting in a loss on settlement of \$9,048.

On 7 December 2016, the Company issued 191,240 common shares with a fair value of \$49,722 for settlement of a loan payable with a principal and interest totalling \$38,248 resulting in a loss on settlement of \$11,474.

#### c) Warrants

As of 31 July 2018, there were 2,178,248 share purchase warrants outstanding as follows:

- 50,071 warrants which expire on 23 June 2019 are exercisable at \$0.50 per share.
- 340 warrants which expire on 23 June 2019 are exercisable at \$0.35 per share.
- 892,766 warrants which expire on 17 October 2019 are exercisable at \$0.40 per share.
- 200,000 warrants which expire on 24 November 2019 and are exercisable at \$0.80 per share.
- 666,071 warrants which expire on 24 October 2022 and are exercisable at \$0.70 per share.
- 369,000 warrants which expire on 30 April 2022 and are exercisable at \$2.71 per share.

<b>WARRANT ACTIVITY</b>	<b>31 July 2018</b>	<b>Weighted Average Exercise Price</b>	<b>31 October 2017</b>	<b>Weighted Average Exercise Price</b>
<b>Balance – Beginning of period</b>	<b>5,191,331</b>	<b>\$ 0.62</b>	<b>2,628,426</b>	<b>\$ 0.64</b>
Issued	<b>1,469,406</b>	<b>1.20</b>	<b>3,893,505</b>	<b>0.53</b>
Exercised	<b>(4,346,937)</b>	<b>0.61</b>	<b>(892,766)</b>	<b>-</b>
Expired	<b>(135,552)</b>	<b>0.71</b>	<b>(437,834)</b>	<b>0.35</b>
<b>Balance – End of period</b>	<b>2,178,248</b>	<b>\$ 0.46</b>	<b>5,191,331</b>	<b>\$ 0.62</b>

#### d) Stock Options

On 20 March 2018, the Company granted incentive stock options to a director of the Company to purchase 100,000 common shares of the Company at an exercise price of \$1.28 per share with an expiry date of 20 March 2023. The grant date fair value was estimated to be \$103,000 on a Black-Scholes calculation using a volatility of 120%, an expected life of 5 years, a risk-free rate of 2.00% and a dividend yield of Nil%.

On 10 April 2018, the Company granted incentive stock options to employees and consultants of the Company to purchase 365,000 common shares of the Company at an exercise price of \$1.90 per share with an expiry date of 10 April 2022. The grant date fair value was estimated to be \$543,000 on a Black-Scholes calculation using a volatility of 121%, an expected life of 4 years, a risk-free rate of 2.01% and a dividend yield of Nil%.

On 11 April 2018, the Company granted incentive stock options to a director of the Company to purchase 250,000 common shares of the Company at an exercise price of \$2.22 per share with an expiry date of 11 April 2023. The grant date fair value was estimated to be \$462,000 on a Black-Scholes calculation using a volatility of 121%, an expected life of 5 years, a risk-free rate of 1.84% and a dividend yield of Nil%.

On 13 February 2018, the Company granted incentive stock options to an employee of the Company to purchase 50,000 common shares of the Company at an exercise price of \$1.95 per share with an expiry date of 13

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February 2022. The grant date fair value was estimated to be \$71,000 on a Black-Scholes calculation using a volatility of 118%, an expected life of 4 years, a risk-free rate of 1.97% and a dividend yield of Nil%.

On 8 January 2018, the Company granted incentive stock options to an officer of the Company to purchase 500,000 common shares of the Company at an exercise price of \$2.87 per share with an expiry date of 19 December 2021. The grant date fair value was estimated to be \$1,178,000 on a Black-Scholes calculation using a volatility of 159%, an expected life of 3.95 years, a risk-free rate of 1.92% and a dividend yield of Nil%. The options vest quarterly over a 24 month term; accordingly, the Company recognized stock-based compensation expense of \$66,263 in connection with these options during the nine month period ended 31 July 2018.

On 17 November 2017, the Company granted incentive stock options to directors and consultants of the Company to purchase 1,090,000 common shares of the Company at an exercise price of \$0.82 per share with an expiry date of 17 November 2021. The grant date fair value was estimated to be \$642,000 on a Black-Scholes calculation using a volatility of 101%, an expected life of 4 years, a risk-free rate of 1.22% and a dividend yield of Nil%. Of the 1,090,000 options granted, 240,000 were granted to a consultant for services performed on the development of the payment processing software; accordingly, \$141,358 was capitalized as software development costs and the balance of \$500,642 was recorded as stock-based compensation expense.

On 19 December 2017, the Company granted incentive stock options to directors of the Company to purchase 750,000 common shares of the Company at an exercise price of \$3.20 per share with an expiry date of 19 December 2021. The grant date fair value was estimated to be \$2,119,000 on a Black-Scholes calculation using a volatility of 155%, an expected life of 4 years, a risk-free rate of 1.70% and a dividend yield of Nil%.

On 31 August 2017 the Company granted incentive stock options to a consultant of the Company to purchase 150,000 common shares of the Company at an exercise price of \$0.20 per share with an expiry date of 23 June 2020. The grant date fair value was estimated to be \$46,000 based on a Black-Scholes calculation using a volatility of 143%, an expected life of 2.82 years, a risk-free rate of 1.22% and a dividend yield of Nil%. On 23 June 2017 the Company granted incentive stock options to certain directors and consultants of the Company to purchase an aggregate of 450,000 common shares of the Company at an exercise price of \$0.35 per share with an expiry date of 23 June 2020. The grant date fair value was estimated to be \$141,000 based on a Black-Scholes calculation using a volatility of 148%, an expected life of 3 years, a risk-free rate of 0.96% and a dividend yield of Nil%.

Stock option activity during the period is summarized as follows:

<b>STOCK OPTION ACTIVITY</b>	<b>31 July 2018</b>	<b>Weighted Average Exercise Price</b>	<b>31 October 2017</b>	<b>Weighted Average Exercise Price</b>
<b>Balance – Beginning of period</b>	<b>3,040,000</b>	<b>\$ 0.26</b>	2,590,000	\$ 0.25
Granted	<b>3,105,000</b>	<b>1.52</b>	600,000	0.31
Exercised	<b>(869,940)</b>	<b>0.25</b>	(150,000)	0.20
<b>Balance – End of period</b>	<b>5,275,060</b>	<b>\$ 0.99</b>	3,040,000	\$ 0.26

## NETCENTS TECHNOLOGY INC.

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As at 31 July 2018 and 31 October 2017 the Company had the following stock options outstanding:

Expiry date	Exercise Price	31 July 2018 Outstanding	31 July 2018 Exercisable	31 October 2017 Outstanding
7 April 2026	\$ 0.25	1,480,000	1,480,000	2,080,000
4 July 2021	0.25	-	-	30,000
13 July 2020	0.25	360,060	360,060	480,000
23 June 2020	0.35	330,000	330,000	450,000
21 November 2021	0.82	1,090,000	1,090,000	-
19 December 2021	3.20	750,000	750,000	-
19 December 2021	2.87	500,000	-	-
13 February 2022	1.95	50,000	12,500	-
10 April 2022	1.90	365,000	43,750	-
19 March 2023	1.28	100,000	6,000	-
11 April 2023	2.22	250,000	250,000	-
		<b>5,275,060</b>	<b>4,322,310</b>	<b>3,040,000</b>

The weighted average grant date fair value of options granted during the period ended 31 July 2018 was \$1.28 per option (year ended 31 October 2017: \$0.31 per option).

## 16) Related party transactions

### a) Related party transactions

Transactions with related parties for the nine months period ended 31 July 2018 and 2017 are as follows:

### KEY MANAGEMENT COMPENSATION

Principal Position	Fiscal Period <sup>(i)</sup>	Remuneration or Fees <sup>(ii)</sup>	Share based payments
Clayton Moore, CEO and director – <sup>(iii)</sup> salary and consulting fees	2018	\$ 174,500	\$ 912,480
	2017	\$ 45,000	\$ -
Gord Jessop, President and director – <sup>(iii)</sup> salary and consulting fees	2018	\$ 102,500	\$ 912,480
	2017	\$ 26,500	\$ -
Michael Laitinen, CFO – <sup>(iii)</sup> salary and consulting fees	2018	\$ 78,500	\$ 515,375
	2017	\$ -	\$ -
Jennifer Lowther, director – consulting fees	2018	\$ 67,000	\$ 706,333
	2017	\$ -	\$ -
Midland Management, a company controlled by the former CFO – consulting fees	2018	\$ -	\$ -
	2017	\$ 15,750	\$ -

<sup>(i)</sup> For the nine months period ended 31 July 2018 and 2017.

<sup>(ii)</sup> Remuneration or fees were paid or accrued to the related party.

<sup>(iii)</sup> All payments to January 31, 2018 were in the form of consulting fees; February 1, 2018 forward all payments in the form of salary.

### b) Related party balances

Included in due to related parties as at 31 July 2018 is \$nil (31 October 2017: \$2,111) to a director and the CEO of the Company. Amounts are due for expenses incurred on behalf of the company and not paid at the period end and are unsecured, non-interest bearing repaid prior to the end of the second quarter.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

Canadian Funds  
(Unaudited)

Included in due to related parties as at 31 July 2018 is \$nil (31 October 2017: \$296,650) to a director and the President of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

Included in due to related parties as at 31 July 2018 is \$nil (31 October 2017: \$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.

Included in loans payable as at 31 July 2018 is \$54,500 (31 October 2017: \$54,500) plus accrued interest of \$16,270 (31 October 2017: \$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.

Included in due from related parties as at 31 July 2018 is \$78,125 (31 October 2017: \$nil) owing from the CEO of the Company. These amounts are non-interest bearing with repayment expected before the end of the fiscal year.

Included in accounts payable as at 31 July 2018 is \$280,407 (31 October 2017: \$nil) owing to key management.

## 17) Commitments

### a) Commitments with related parties

Pursuant to the employment agreement, effective 1 January 2018, the Company will remunerate the President of the Company \$16,500 per month. 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 the employment agreement, effective 1 January 2018, the Company will remunerate the Chief Executive Officer of the Company \$18,500 per month. In the event that the CEO is terminated without cause, the Company must continue paying the salary for a period of 18 months.

### b) Other commitments

On 1 March 2018, the Company entered into a premises lease agreement for a period of seven years, expiring on 28 February 2025. Minimum annual lease payments for the term of the lease is as follows:

LEASE PERIOD	Amount
1 August 2018 to 31 October 2018	\$ 53,600
1 November 2018 to 31 October 2019	434,811
1 November 2019 to 31 October 2020	434,811
1 November 2020 to 31 October 2021	434,811
1 November 2021 to 31 October 2022	434,811
1 November 2022 to 31 October 2023	434,811
1 November 2023 to 31 October 2024	434,811
1 November 2024 to 28 February 2025	141,760
	<hr/>
	\$ 2,804,226

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

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#### 18) Weighted Average Shares Outstanding

	Three months ended 31 July 2018	Three months ended 31 July 2017
Basic	42,352,666	30,967,448
Effect of dilutive stock options and warrants	4,265,793	-
Diluted	46,618,460	30,967,448

  

	Nine months ended 31 July 2018	Nine months ended 31 July 2017
Basic	40,919,398	29,760,669
Effect of dilutive stock options and warrants	4,265,793	-
Diluted	45,185,191	29,760,669

#### 19) Capital management

The Company's capital structure consists of all components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the current operations and the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity and debt financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

#### 20) Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

#### 21) Subsequent events

On August 1, 2018, Jean-Marc Bougie resigned as director of the Company.

On August 9, 2018, the Company announced the launch of their native Apple and Android user Applications.

On August 16, 2018, the Company announced the addition of Verge (XVG), Tron TRX), ZenCash (ZEN), BitCoin Cash (BCH) and NEM (XEM).

On August 20, 2018, the Company announced the filing of amended and restated Annual and Interim Financial Disclosures.

On August 21, 2018, the Company announced the launch of their Four Partner Program. The four partner programs are an Enterprise White-Label Program, ISO/Reseller Program, Affiliate Partner Program and a Developer Partner Program.

On August 23, 2018, the Company announced the entering into a Merchant Agreement with a streaming video service company.



## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017

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On August 24, 2018, the Company announced they will be launching a branded cryptocurrency credit card into the Canadian and European markets. The NetCents Card will be able to be used anywhere, at over 40 million merchants worldwide, that Visa or Mastercard are accepted.

On August 27, 2018, the Company announced the signing of a Licensing Agreement for a third party who will integrate the NetCents cryptocurrency payment processing platform into their merchants and partners in the Caribbean.

On August 27, 2018, the Company announced the addition of BitCoin Cash into the NC exchange. The integration of BCH into the NC Exchange is the first phase of the integration of the coin into the NetCents ecosystem. NetCents users are now able to deposit, withdraw, and trade BCH for fiat and cryptocurrencies supported by the NC Exchange with other NC Exchange users.

On August 28, 2018, the Company announced financing by way of a Convertible Discounted Loan Offering for an aggregate of \$487,500. At any time prior to the Maturity Date, the Lender has the option to convert the principal amount of the Loan into units in the capital of the Company (the "Units") at \$1.59 per Unit. Each Unit will consist of one common share of the Company ("Shares") and one Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder to purchase one Share at of the price \$1.59 per Share for a 24-month term from the date of issuance of the Debt. The face value of the Debt is expected to be an aggregate of \$487,500, which will be sold at an original issue discount of 15% to the face value.

On August 28, 2018, the Company announced the NetCents platform will be used as an Asset Management System to be used within the suite of games for users to obtain and manage their winnings.

On August 29, 2018, the Company announced NetCents technology will be featured in the documentary series Blockchain Superstars

On September 6, 2018, the Company announced they entered into an ISO Reseller Agreement with Bleu Tech Enterprises. Through this agreement, the NetCents cryptocurrency payment processing technology will be integrated into the Bleu Point of Sale (POS) terminals. Once the integration has been completed, merchants who use Bleu POS will be able to accept Bitcoin, Litecoin, Ether, and NCCO as a payment method for their retail customers.

On September 8, 2018 the Company announced Repricing Convertible Discounted Loan Offering for an Aggregate of \$487,500. At any time prior to the Maturity Date, the Lender has the option to convert the principal amount of the Loan into units in the capital of the Company (the "Units") at \$1.08 (originally priced at \$1.59) per Unit. Each Unit will consist of one common share of the Company ("Shares") and one Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder to purchase one Share at the price of \$1.08 (originally \$1.59) per Share for a 24-month term from the date of issuance of the Debt. The face value of the Debt is expected to be an aggregate of \$487,500, which will be sold at an original issue discount of 15% to the face value.

On September 13, 2018, the company announced the integration into WildBunch Gaming (WildBunch) network was completed.

On September 17, 2018, the Company announced that it has entered into a Letter of Understanding (LOU) with Shyft Network Inc. (Shyft). Shyft standardizes the KYC verification process and functions as a distributed network.

On September 20, 2018, the Company announced the resignation of the CFO.

Subsequent to July 31, 2018, the Company has repaid \$1,000,000 of the convertible loan as described in Note 14.

On September 18, 2018, 25,000 stock options and 450,000 share purchase warrants were exercised for gross proceeds of \$8,750 and \$335,000.

Subsequent to July 31, 2018, the Company completed a non-brokered private placement issuing 2,151,000 units ("Units") of the Company at a price of \$1.00 per Unit for total proceeds of \$2,151,000. Each Unit will be comprised of

## **NETCENTS TECHNOLOGY INC.**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE NINE AND THREE MONTHS ENDED 31 JULY 2018 AND 2017**

Canadian Funds

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one (1) common share of the Company (a "Share") and one (1) common share purchase warrant of the Company (a "Warrant"). Each Warrant will be exercisable into one (1) common share of the Company (a "Warrant Share") at an exercise price of \$1.25 for a period of 24 months from the closing date of the Offering.