



**NETCENTS TECHNOLOGY INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 OCTOBER 2018**

Stated in Canadian Funds

## TABLE OF CONTENTS

Table of Contents.....	2
Management’s Responsibility.....	i
Consolidated Statements of Financial Position .....	1
Consolidated Statements of Loss and Comprehensive Loss.....	2
Consolidated Statements of Cash Flows.....	4
Notes to the Consolidated Financial Statements .....	5
1) Nature of operations and going concern.....	5
2) Basis of preparation – statement of compliance.....	5
3) Summary of significant accounting policies.....	6
a) Subsidiaries .....	6
b) Financial Instruments.....	6
c) Loss per share .....	7
d) Income taxes.....	7
e) Research and development .....	8
f) Equipment.....	8
g) Cash.....	8
h) Share-based payments.....	8
i) Revenue recognition .....	9
j) Foreign currency translation.....	9
4) Critical accounting judgements and key sources of estimation uncertainty.....	9
5) Accounting standards issued but not yet effective .....	11
6) Financial instruments and risk management.....	12
7) Digital currencies .....	13
8) Funds due from payment processors / to merchants .....	13
9) Assets held for clients .....	13
10) Proceeds from the sale of coin .....	14
11) Equipment.....	15
12) Intangible assets .....	16
13) Loans payable.....	16
14) Convertible loan.....	18

15)	Share capital.....	18
16)	Related party transactions.....	22
17)	Commitments .....	23
18)	Capital management.....	24
19)	Income taxes .....	24
20)	Comparative figures.....	25
21)	Subsequent events.....	25

## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of NetCents Technology Inc.:

Management is responsible for the preparation and presentation of the accompanying 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 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.

We draw attention to Note 1 in the 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 consolidated financial statements were approved by the Board of Directors on 25 March 2019 and were signed on its behalf by:

*"Clayton Moore"*

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

*"Gord Jessop"*

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



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of NetCents Technology Inc.

We have audited the accompanying consolidated financial statements of NetCents Technology Inc., which comprise the consolidated statements of financial position as at October 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NetCents Technology Inc. as at October 31, 2018 and 2017 its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about NetCents Technology Inc.'s ability continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
March 25, 2019

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at	
		31 October 2018	31 October 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 1,081,293	\$ 27,249
Digital currencies	(7)	146,255	-
Restricted cash and funds due from processors	(8)	2,362	203,608
Assets held for clients	(9)	1,808,393	120,844
Prepaid amounts and deposits		145,375	45,889
Due from related parties	(16)	78,125	-
		<b>3,261,803</b>	<b>475,523</b>
<b>Non-current Assets</b>			
Proceeds of coin sale	(10)	3,341,041	77,933
Equipment	(11)	317,268	14,995
Intangible assets	(12)	65,132	129,351
		<b>\$ 6,985,244</b>	<b>\$ 619,869</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	(16)	\$ 1,079,158	\$ 747,659
Accrued liabilities		41,413	71,954
Client deposits	(9)	1,808,393	120,844
Funds due to merchants	(8)	429,497	835,251
Loans payable	(13)	98,181	104,043
Convertible loans	(14)	449,479	-
Deferred revenue		31,183	69,248
Provision for coin sale	(10)	3,341,041	77,933
		<b>7,278,345</b>	<b>2,026,932</b>
<b>EQUITY</b>			
Share capital	(15)	15,550,130	6,269,920
Contributed surplus – options	(15)	5,021,479	755,839
Contributed surplus – warrants	(15)	1,107,506	346,000
Deficit		(21,972,216)	(8,778,822)
		<b>(293,101)</b>	<b>(1,407,063)</b>
		<b>\$ 6,985,244</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 consolidated financial statements were approved by the Board of Directors on 25 March 2019 and were signed on its behalf by:

“Gord Jessop”

Gord Jessop, Director

“Clayton Moore”

Clayton Moore, Director

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Note	Year ended 31 October 2018	Year ended 31 October 2017
<b>CONTINUING OPERATIONS</b>			
<b>Income</b>			
Processing revenue		\$ 120,578	\$ 94,105
<b>Cost of sales</b>		<b>(10,122)</b>	<b>(14,384)</b>
<b>Gross profit</b>		<b>110,456</b>	<b>79,721</b>
<b>Operating Expenses</b>			
Amortization of intangible assets	(12)	64,219	64,676
Amortization of tangible assets	(11)	61,089	1,666
Bad debt expense		-	379,406
Consulting fees	(16)	384,174	529,193
Exchange losses		104,240	111,939
Marketing and investor relations		959,785	141,477
Office		273,296	74,600
Professional fees		519,399	230,961
Rent		412,874	86,538
Salaries and wages	(16)	1,069,457	-
Share based payments	(15)	6,232,577	568,515
Transaction expense	(10)	135,434	-
Transfer agent and filing fees		31,688	40,488
Travel		428,215	28,183
		<b>10,676,447</b>	<b>2,257,642</b>
<b>Loss from Operations</b>		<b>(10,565,991)</b>	<b>(2,177,921)</b>
<b>Other Income (Loss)</b>			
Loss on settlement of debt	(15)	(1,465,990)	(523,769)
Shares issued in error	(15)	(907,151)	-
Gain on sale of equipment		6,166	-
Gain on repayment of convertible loan		9,298	-
Interest and accretion expense		(104,035)	(90,718)
Fair value change of derivative liability		-	11,463
Write down of amount due from NCCO Foundation	(10)	(165,691)	-
		<b>(2,627,403)</b>	<b>(603,024)</b>
<b>Net Loss and Comprehensive Loss for the Year</b>		<b>\$ (13,193,394)</b>	<b>\$ (2,780,945)</b>
<b>Basic and Diluted Loss per Common Share</b>		<b>\$ (0.32)</b>	<b>\$ (0.09)</b>
<b>Weighted Average Number of Shares Outstanding</b>			
<b>Basic and Diluted</b>		<b>41,436,093</b>	<b>30,724,416</b>

# NETCENTS TECHNOLOGY INC.

Canadian Funds

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	# of Shares	Amount	Equity portion of convertible loans	Contributed surplus - options	Contributed surplus - warrants	Deficit	Equity
<b>Balance 31 October 2016</b>	28,763,061	\$ 4,124,555	\$ -	\$ 614,839	\$ -	\$ (5,997,877)	\$ (1,258,483)
Units issued for cash	3,304,640	1,156,624	-	-	-	-	1,156,624
Share issuance costs	-	(158,565)	-	-	60,000	-	(98,565)
Shares issued for debt settlement	831,716	178,770	-	-	-	-	178,770
Units issued for debt settlement	892,766	491,021	-	-	286,000	-	777,021
Stock based compensation	-	-	-	187,000	-	-	187,000
Shares issued for services	748,068	381,515	-	-	-	-	381,515
Shares issued for cash	100,000	20,000	-	-	-	-	20,000
Shares issued on the exercise of options	150,000	76,000	-	(46,000)	-	-	30,000
Net loss for the year	-	-	-	-	-	(2,780,945)	(2,780,945)
<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	614,084	1,667,535	-	-	-	-	1,667,535
Shares issued for debt settlement	355,000	955,600	-	-	-	-	955,600
Shares issued in error	198,068	907,151	-	-	-	-	907,151
Shares issued for exercise of options	894,940	438,817	-	(212,582)	-	-	226,235
Shares issued for exercise of warrants	4,611,137	2,871,775	-	-	-	-	2,871,775
Units issued for cash	3,277,071	2,661,000	-	-	-	-	2,661,000
Equity component of convertible debt	-	-	25,547	-	-	-	25,547
Share issuance costs	-	(221,668)	-	-	-	-	(221,668)
Repayment of convertible debt	-	-	(25,547)	-	-	-	(25,547)
Warrants issued for debt settlement	-	-	-	-	674,685	-	674,685
Stock based compensation	-	-	-	4,478,222	86,821	-	4,565,043
Net loss for the year	-	-	-	-	-	(13,193,394)	(13,193,394)
<b>Balance 31 October 2018</b>	44,740,551	\$ 15,550,130	\$ -	\$ 5,021,479	\$ 1,107,506	\$ (21,972,216)	\$ (293,101)



## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 31 October 2018	Year Ended 31 October 2017
<b>OPERATING ACTIVITIES</b>		
<b>Net Loss for the Year</b>	\$ (13,193,394)	\$ (2,780,945)
<b>Items not Affecting Cash</b>		
Share based payments	6,232,577	568,515
Loss on settlement of debt	1,465,990	523,769
Shares issued in error	907,151	-
Amortization of intangible assets	64,219	64,676
Amortization of tangible assets	61,089	1,666
Accretion and other non-cash interest	104,035	-
Gain on repayment of convertible loan	(9,298)	-
Change in fair value of derivative liability	-	(11,463)
	<b>(4,367,631)</b>	<b>(1,633,782)</b>
<b>Change in Non-cash Working Capital Items</b>		
Funds due from processors	-	(203,608)
Prepaid amounts and other assets	(99,486)	(30,997)
Accounts payable and accrued liabilities	465,254	17,913
Funds due to merchants	(204,508)	835,251
Deferred revenue	(38,065)	69,248
Due to related parties	-	82,992
Digital currencies	(146,255)	-
	<b>(4,390,691)</b>	<b>(862,983)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(363,362)	(16,661)
Purchase of intangible assets	-	(98,083)
	<b>(363,362)</b>	<b>(114,744)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from unit issuances, net of costs	2,439,332	1,108,059
Proceeds from exercise of options	226,235	-
Proceeds from exercise of warrants	2,871,775	-
Proceeds from loans payable	-	605,000
Advances to related parties	(78,125)	-
Repayment of loans payable	(1,040,085)	(721,195)
Proceeds from convertible loans	1,388,965	-
	<b>5,808,097</b>	<b>991,864</b>
<b>Net increase in Cash</b>	<b>1,054,044</b>	<b>14,137</b>
Cash position – beginning of Year	27,249	13,112
<b>Cash Position – End of Year</b>	<b>\$ 1,081,293</b>	<b>27,249</b>

## NETCENTS TECHNOLOGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017  
Canadian Funds

### NOTES TO THE 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 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 income 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 and has a substantial working capital deficiency.

	31 October 2018	31 October 2017
Working capital surplus (deficiency)	\$ (4,016,542)	\$ (1,551,409)
Accumulated deficit	\$ (21,972,216)	\$ (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") and related IFRS Interpretations Committee ("IFRICs") as issued by the International Accounting Standards Board ("IASB"). These Financial Statements were authorized for issue by the Board on 25 March 2019 and have been prepared under the historical cost convention, except for certain financial instruments.

The preparation of the Financial Statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are 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.

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.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

Canadian Funds

### 3) Summary of significant accounting policies

#### a) Subsidiaries

These Financial Statements incorporate the financial statements of the Company and the entity controlled by the Company, which consist of:

- Netcents Systems Ltd., which was incorporated on January 11, 2006 in the province of Alberta, and is 100% owned by the Company; and
- NetCents International Ltd, which was incorporated on 24 March 2017 in England and Wales, and is owned 100% by the Company.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition.

#### b) Financial Instruments

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

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

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

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

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

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

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

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

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

#### c) Loss per share

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

#### d) Income taxes

##### Current Income Tax

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

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

##### Deferred income tax

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

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

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

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

## NETCENTS TECHNOLOGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017  
Canadian Funds

### e) Research and development

Research costs are expensed when incurred. Internally-generated software costs, including personnel costs of the Company's development group, are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company 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 Company 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.

### f) Equipment

Equipment is stated at cost and depreciated using the straight-line method based on estimated useful lives, which generally range from 1 to 5 years.

The costs of day-to-day servicing are recognized in profit or loss as incurred. These costs are more commonly referred to as "maintenance and repairs."

The depreciation method, useful life and residual values are assessed annually.

#### Leased assets

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Finance leases are recognized at the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

#### Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized as an expense as incurred.

#### Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period.

### g) Cash

The Company considers cash to include amounts held in banks and highly liquid investments with maturities at a point of purchase of three months or less.

### h) Reserves

Equity reserves include amounts related to share issuance costs and share-based payments.

### i) Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated between to shares according to their fair value and any residual in the proceeds is allocated to the warrants.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

### Canadian Funds

#### j) Digital currencies

Digital currencies consist of cryptocurrency denominated assets and are included in current assets. Digital currencies are carried at their fair value and adjusted at each reporting date for revaluation gains and losses through the consolidated statement of loss and comprehensive loss as well as when digital currencies are exchanged or sold for traditional (fiat) currencies, such as the US dollar. The Company values its cryptocurrencies based on the price quoted on <https://cryptocoincharts.info>.

#### k) Share-based payments

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

#### l) Revenue recognition

Revenue is recognized at fair value of the consideration received or receivable less refunds as the applicable service is provided. Revenue consists of fees earned in consideration for providing payment processing services and related activities. Where fees are charged for payment processing but the Company has not finalized the payment to the merchant, fees received are included in deferred revenue.

#### m) Foreign currency translation

The Financial Statements are presented in Canadian dollars, which is the functional currency of the Company and its wholly owned subsidiary, Netcents Systems Ltd, and Netcents Technology Ltd. has a functional currency of British Pound. Transactions in currencies other than the functional currency are translated into Canadian dollars on the following basis:

- Monetary assets and liabilities at the rate of exchange in effect at the statement of financial position date;
- Non-monetary assets and liabilities at the rates of exchange in effect on the respective dates of transactions; and,
- Revenues and expenses (excluding depreciation, which is translated at the same rate as the related asset), at the exchange rates in effect on the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss.

#### 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.

## NETCENTS TECHNOLOGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017  
Canadian Funds

### 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.

#### Digital currency valuation

Digital currency denominated assets (Note 7) are included in current assets. Digital currencies are carried at their fair value determined by the spot rate based on the daily average from <https://cryptocoincharts.info>. The digital currency market is still a new market and is highly volatile; historical prices are not necessarily indicative of future value; a significant change in the market prices for digital currencies may have a significant impact on the Company's earnings and financial position.

### 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 (legal tender whose valued is backed by the government that issued it) 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.

### 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 CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

##### Canadian Funds

## 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 2018 and 2017. 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, restricted cash and funds due from processors, assets held for clients, due to related parties, accounts payable, client deposits, loans payable, funds due to merchants, and loans payable. As at 31 October 2018 and 2017, the carrying value of cash, assets held for clients and client deposits are 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. At 31 October 2018, the Company recorded an allowance of \$nil (2017 - \$379,406) 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.

### 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 October 2018, the Company held financial liabilities denominated in foreign currencies totalling \$144,155 (31 October 2017 - \$858,348), as well as financial assets denominated in foreign currencies totalling \$287,498 (31 October 2017 -

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

\$232,257). A 5% shift in exchange rates would result in a foreign exchange gain or loss of approximately \$7,000. 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 31 October 2018, the Company had an unrestricted cash balance of \$1,081,293 to settle current liabilities, other than client deposits and provision for coin sale for which cash reserves have been restricted, totalling \$2,128,911 which are due within one year. Accordingly, the Company is significantly exposed to liquidity risk.

#### 7) Digital currencies

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, with the exception of NCCO, is determined by the spot closing rate of the currency from <https://cryptocoincharts.info>.

	31 October 2018	31 October 2017
Bitcoin	\$ 47,437	\$ -
Bitcoin Cash	3,270	-
Ethereum	17,877	-
Litecoin	8,715	-
NCCO	68,956	-
	<b>\$ 146,255</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 October 2018, the Company had funds due from processors in the amount of \$2,362 (31 October 2017 - \$203,608) to settle funds due to merchants in the amount of \$429,497 (31 October 2017 - \$835,251). Due to uncertainty of collecting funds owed from one payment processor, an allowance was recorded in the amount of \$nil (31 October 2017 - \$379,406) and charged to bad debt expense for the year.

#### 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 October 2018, the Company held client funds totalling \$1,808,393 (2017 - \$120,844) in the NC client wallets.

The assets held for clients is broken down as follows:

Assets held for clients	31 October 2018	31 October 2017
Cash	\$ 156,070	\$ 102,854
NCCO Coin	1,548,420	-
Digital currencies	103,903	17,990
	<b>\$ 1,808,393</b>	<b>\$ 120,844</b>

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

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

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 3 fair value measurement on the basis that to date the volume of trades of NCCO coins on the NetCents Exchange has been minimal. The fair value of the NCCO coins was determined based on the most recent market based trade prior to the reporting period end date. Future prices of the NCCO coin may significantly vary in comparison to October 31, 2018.

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

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

For the coin sale transactions, the Company received funds from the client's user accounts 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 recorded 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 the Company's legal counsel.

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 Foundation 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 Foundation.

Expenses of \$135,434 incurred on the transfer of funds into the wallets and the related exchange differences were expensed by the Company. The Company also incurred expenses of \$165,691 in connection with the set-up of the NCCO coin which the Company is entitled to be reimbursed by the NCCO Foundation. However, because there is uncertainty as to the collectability of this balance, the Company has wrote down the receivable of \$165,691 for the year ended October 31, 2018.

## NETCENTS TECHNOLOGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017  
Canadian Funds

### 11) Equipment

	Equipment
<b>COST</b>	
<b>Balance at 31 October 2016</b>	\$ -
Additions	16,661
<b>Balance at 31 October 2017</b>	16,661
Additions	383,446
Disposal	(23,874)
<b>Balance at 31 October 2018</b>	<b>\$ 376,233</b>
<b>DEPRECIATION</b>	
<b>Balance at 31 October 2016</b>	\$ -
Additions	1,666
<b>Balance at 31 October 2017</b>	1,666
Additions	61,089
Disposal	(3,790)
<b>Balance at 31 October 2018</b>	<b>\$ 58,965</b>
<b>CARRYING AMOUNTS</b>	
<b>At 31 October 2017</b>	\$ 14,995
<b>At 31 October 2018</b>	<b>\$ 317,268</b>

## NETCENTS TECHNOLOGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017  
Canadian Funds

### 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	-
<b>Balance at 31 October 2018</b>	<b>\$ 194,027</b>
<b>DEPRECIATION</b>	
<b>Balance at 1 November 2016</b>	\$ -
Additions	64,676
<b>Balance at 31 October 2017</b>	64,676
Additions	64,219
<b>Balance at 31 October 2018</b>	<b>\$ 128,895</b>
<b>CARRYING AMOUNTS</b>	
<b>At 31 October 2017</b>	\$ 129,351
<b>At 31 October 2018</b>	<b>\$ 65,132</b>

Research costs are expensed when incurred. Internally-generated software costs, including personnel costs of the Company's development group, are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company 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 Company 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.

### 13) Loans payable

	31 October 2018	31 October 2017
<b>Balance – Beginning of year</b>	\$ 104,043	\$ 288,486
Proceeds from loans	-	605,000
Interest expense	353	89,660
Prepaid interest expense	-	(667)
Settlement of loans payable	(6,215)	(878,436)
<b>Balance – End of year</b>	<b>\$ 98,181</b>	<b>\$ 104,043</b>

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

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

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

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 \$409,000; accordingly, the Company recognized a loss on settlement of debt in the amount of \$402,785.

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. At 31 October 31 2018, the balance payable including interest is \$26,331 (2017: \$25,581).

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 (Note 6). Effective 1 July 2015, the lender agreed that interest would stop accruing on the loan. At 31 October 2018, the outstanding loan balance was \$52,000 (2017: \$52,000) and there was outstanding interest of \$16,270 (2017: \$16,270).

Other loans totalling \$3,500 (2017: \$3,500) are unsecured, non-interest bearing with no fixed terms of repayment. Also included in the loan balance at 31 October 2018 is \$Nil (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. The loan including interest was repaid in full during the year ended 31 October 2017.

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. The loan and interest were fully repaid during the year ended 31 October 2017.

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 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.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

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

	31 October 2018	31 October 2017
<b>Balance – Beginning of year</b>	\$ -	\$ -
Proceeds from issuance of convertible loans	1,388,965	-
Allocated to equity	(25,547)	-
Interest and accretion	104,035	-
Settlement of loans payable	(1,017,974)	-
<b>Balance – End of year</b>	\$ 449,479	\$ -

On 30 April 2018, the Company entered into a convertible loan agreement with a director of the Company for net proceeds of \$969,985. The loan is interest bearing of 8% per annum, calculated daily and compounded monthly. At any time prior to October 30, 2018, the holder 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 holder on the closing date 369,000 common share purchase warrants entitling the holder 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 management 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 \$25,547 on initial recognition. The convertible loan was fully repaid during the year ending 31 October 2018 resulting in a gain of \$9,298.

On 4 September 2018, the Company entered in six convertible loan agreements for net proceeds of \$418,980. The face value of the convertible loans is \$520,796. The loans are interest bearing of 10% per annum, calculated daily and compounded monthly. At any time prior to March 4, 2019, the holder may elect to convert all but not less than all, of principal amount into common shares of the Company at a conversion price of \$1.08 unit. Each unit will consist of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase a further common share of the Company at \$1.08 for a period expiring on August 27, 2020. The Company determined that the proceeds received approximated the fair value of the liability component and therefore no value was allocated to the equity component.

#### 15) Share capital

##### a) Authorized

Unlimited Class A common shares, without par value.

##### b) Issued

As at 31 October 31 2018, there were 44,740,551 (31 October 2017: 34,790,251) common shares issued and fully paid common shares outstanding.

During the year ended 31 October 2018, the Company issued 894,940 common shares for proceeds of \$226,235 on the exercises of stock options. On the issuance of the shares, the \$212,582 previously recorded in contributed surplus was reclassified to share capital.

During the year ended 31 October 2018, the Company issued 4,611,137 common shares for proceeds of \$2,871,775 on the exercises of warrants.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

On 31 October 2018, the Company issued 14,084 common shares of the Company with a fair value of \$22,535 for services recorded in stock based compensation.

On 31 October 2018, the Company issued 75,000 common shares of the Company with a fair value of \$84,000 for settlement of \$94,920 of debt resulting in a gain of \$10,920.

On 16 October 2018, the Company issued 150,000 common shares of the Company with a fair value of \$174,000 for services recorded in stock based compensation.

On 25 September 2018, the Company closed a non-brokered private placement issuing 2,161,000 units of the Company for gross proceeds of \$2,161,000 incurring share issuance costs of \$221,668. 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 \$1.25 for a period of two years from the date of issuance.

On 18 April 2018, the Company issued 250,000 common shares of the Company with a fair value of \$555,000 to a director of the Company for consulting services.

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. The Company incurred share issuance costs of \$4,281 in connection with this financing.

On 7 December 2017, the Company issued 198,068 common shares of the Company with a fair value of \$907,151 to a third party in error. The Company is in the process of requiring the third party to return these shares for cancellation.

On 7 December 2017, the Company issued 100,000 common shares of the Company with a fair value of \$409,000 for settlement of \$6,215 of debt resulting in a loss of \$402,785.

On 7 December 2017, the Company issued 200,000 common shares of the Company with a fair value of \$916,000 for services recorded in stock based compensation.

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 \$462,600 and the fair value of the warrants was estimated to be \$674,685 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 \$1,074,125.

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 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.



## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

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. 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 October 2018, there were 4,252,960 share purchase warrants outstanding as follows:

- 28,571 warrants which expire on 23 June 2019 are exercisable at \$0.50 per share.
- 892,766 warrants which expire on 17 October 2019 are exercisable at \$0.40 per share.
- 135,552 warrants which expire on 31 October 2019 are exercisable at \$1.42 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.
- 2,161,000 warrants which expire on 25 September 2022 and are exercisable at \$1.25 per share.

<b>WARRANT ACTIVITY</b>	<b>31 October 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>6,084,097</b>	<b>\$ 0.54</b>	<b>2,628,426</b>	<b>\$ 0.64</b>
Issued	2,965,552	1.39	3,893,505	0.53
Exercised	(4,611,137)	0.57	-	-
Expired	(185,552)	0.61	(437,834)	0.35
<b>Balance – End of period</b>	<b>4,252,960</b>	<b>\$ 1.11</b>	<b>6,084,097</b>	<b>\$ 0.54</b>

During the year ended 31 October 2018, the Company recorded \$86,821 as stock based compensation for warrants issued for services.

#### d) Stock Options

On 10 April 2018, the Company granted incentive stock options to employees and consultants of the Company to purchase 275,000 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 \$479,901 on a Black-Scholes calculation using a volatility of 172%, an expected life of 4 years, a risk-free rate of 2.03% 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 90,000 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 \$157,058 on a Black-Scholes calculation using a volatility

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

of 172%, an expected life of 4 years, a risk-free rate of 2.03% and a dividend yield of Nil%. The options vest quarterly over a 12 and 24-month term; accordingly, the Company recognized stock-based compensation expense of \$94,453 in connection with these options for the year ended 31 October 2018.

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 \$526,389 on a Black-Scholes calculation using a volatility of 172%, an expected life of 5 years, a risk-free rate of 2.06% and a dividend yield of Nil%. The options vest quarterly over a 24-month term; accordingly, the Company recognized stock-based compensation expense of \$342,373 in connection with these options for the year ended.

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 \$117,824 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%. The options vest quarterly over a 24-month term; accordingly, the Company recognized stock-based compensation expense of \$55,748 in connection with these options for the year ended 31 October 2018.

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 February 2022. The grant date fair value was estimated to be \$84,389 on a Black-Scholes calculation using a volatility of 170%, an expected life of 4 years, a risk-free rate of 1.97% and a dividend yield of Nil%. The options vest quarterly over a 12-month term; accordingly, the Company recognized stock-based compensation expense of \$78,828 for the year ended 31 October 2018.

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 \$1,213,111 on a Black-Scholes calculation using a volatility of 172%, 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 \$404,369 in connection with these options for the year ended 31 October 2018. Subsequent to the second tranche of these options vesting, the options were forfeited.

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 \$0.84 per share with an expiry date of 17 November 2021. The grant date fair value was estimated to be \$828,218 on a Black-Scholes calculation using a volatility of 147%, an expected life of 5 years, a risk-free rate of 1.60% and a dividend yield of Nil%. The options vest quarterly over a 12-month term; accordingly, the Company recognized stock-based compensation expense \$818,653 in connection with these options for the year ended.

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 \$2,203,897 on a Black-Scholes calculation using a volatility of 173%, 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%.

## NETCENTS TECHNOLOGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017  
Canadian Funds

Stock option activity during the year is summarized as follows:

<b>STOCK OPTION ACTIVITY</b>	<b>31 October 2018</b>	<b>Weighted Average Exercise Price</b>	<b>31 October 2017</b>	<b>Weighted Average Exercise Price</b>
<b>Balance – Beginning of year</b>	<b>3,040,000</b>	<b>\$ 0.26</b>	2,590,000	\$ 0.25
Granted	3,105,000	2.00	600,000	0.31
Exercised	(894,940)	0.25	(150,000)	0.20
Forfeited	(500,000)	2.87	-	-
<b>Balance – End of year</b>	<b>4,750,060</b>	<b>\$ 1.13</b>	3,040,000	\$ 0.26

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

<b>Expiry date</b>	<b>Exercise Price</b>	<b>31 October 2018 Outstanding</b>	<b>31 October 2018 Exercisable</b>	<b>31 October 2017 Outstanding</b>
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	240,060	240,060	480,000
23 June 2020	\$ 0.35	425,000	425,000	450,000
21 November 2021	\$ 0.84	1,090,000	1,090,000	-
19 December 2021	\$ 3.20	750,000	750,000	-
13 February 2022	\$ 1.95	50,000	25,000	-
10 April 2022	\$ 1.90	365,000	317,500	-
19 March 2023	\$ 1.28	100,000	12,000	-
11 April 2023	\$ 2.22	250,000	250,000	-
		<b>4,750,060</b>	<b>4,589,560</b>	<b>3,040,000</b>

The weighted average grant date fair value of options granted during the year ended 31 October 2018 was \$1.80 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 year ended 31 October 2018 and 2017 are as follows:

<b>KEY MANAGEMENT COMPENSATION</b>	<b>Fiscal Period</b>	<b>Remuneration or Fees</b>	<b>Share based payments</b>
<b>Principal Position</b>			
Clayton Moore, CEO and director – <sup>(i)</sup> salary and consulting fees	<b>2018</b>	<b>\$ 311,000</b>	<b>\$ 997,503</b>
	2017	\$ 190,000	\$ 39,167
Gord Jessop, President and director – <sup>(i)</sup> salary and consulting fees	<b>2018</b>	<b>\$ 221,400</b>	<b>\$ 997,503</b>
	2017	\$ 156,000	\$ 39,167
Jennifer Lowther, CRO and director – consulting fees	<b>2018</b>	<b>\$ 110,200</b>	<b>\$ 734,632</b>
	2017	\$ -	\$ -
Chris Cherry, CFO – consulting fees	<b>2018</b>	<b>\$ 7,500</b>	<b>\$ -</b>
	2017	\$ -	\$ -
Mehdi Mehrtash, CTO – consulting fees	<b>2018</b>	<b>\$ 115,500</b>	<b>\$ -</b>
	2017	\$ -	\$ -

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

#### Canadian Funds

Michael Laitinen, former CFO – <sup>(i)</sup> salary and consulting fees	<b>2018</b>	\$	<b>104,500</b>	\$	<b>404,369</b>
	2017	\$	-	\$	-
Lucas Birdsall, former director – consulting fees	<b>2018</b>	\$	-	\$	-
	2017	\$	<b>25,000</b>	\$	46,000
0743886 BC Ltd., a company controlled by a former director of the Company	<b>2018</b>	\$	-	\$	-
	2017	\$	52,500	\$	-
Jean-Marc Bougie, former director – shares for services	<b>2018</b>	\$	-	\$	<b>897,373</b>
	2017	\$	-	\$	-

<sup>(i)</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 loans payable as at 31 October 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 (Note 13). 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 October 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 October 2018 is \$311,232 (31 October 2017: \$305,761) owing to key management. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

## 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 of base rent for the term of the lease is as follows:

LEASE PERIOD	Amount
1 November 2018 to 31 October 2019	\$ 258,144
1 November 2019 to 31 October 2020	258,144
1 November 2020 to 31 October 2021	258,144
1 November 2021 to 31 October 2022	258,144
1 November 2022 to 31 October 2023	258,144
1 November 2023 to 31 October 2024	258,144
1 November 2024 to 28 February 2025	86,048
	<u>\$ 1,634,912</u>

## NETCENTS TECHNOLOGY INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017  
Canadian Funds

### 18) 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.

### 19) Income taxes

The following table reconciles the expected income taxes (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of loss and comprehensive loss for the years ended 31 October 2018 and 2017:

	31 October 2018	31 October 2017
Loss before income taxes	\$ (13,193,394)	\$ (2,780,945)
Canadian statutory rates	27%	26%
Expected income tax (recovery)	(3,536,000)	(723,000)
Temporary differences	(106,000)	(25,000)
Non-deductible items	2,108,000	118,000
Differences between prior year provision and final tax return	119,000	102,000
Change in deferred tax asset not recognized	1,415,000	528,000
Income tax (recovery)	\$ -	\$ -

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Deferred tax assets (liabilities) at 31 October 2018 and 2017 are comprised of the following:

	31 October 2018	31 October 2017
Non-capital loss carry-forwards	\$ 3,099,000	\$ 1,757,000
Capital loss carry-forwards	71,000	68,000
Equipment	22,000	1,000
Intangible assets	35,000	17,000
Share issuance costs	52,000	21,000
	\$ 3,279,000	\$ 1,864,000
Deferred tax asset not recognized	(3,279,000)	(1,864,000)
Net deferred tax asset	\$ -	\$ -

The Company has non-capital loss carry forward of approximately \$11,478,000 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the years between 2028 and 2038.

## NETCENTS TECHNOLOGY INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED 31 OCTOBER 2018 AND 2017

Canadian Funds

#### 20) Comparative figures

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

#### 21) Subsequent events

The following events occurred subsequent to October 31, 2018:

- a. 600,000 warrants were exercised for proceeds of \$240,000.
- b. 860,000 options were exercised for proceeds of \$221,000.
- c. On 19 December 2018, the Company granted incentive stock options to directors and employees of the Company to purchase 500,000 common shares of the Company at an exercise price of \$0.76 with an expiry date of 19 December 2023. The Company also granted incentive stock options to employees to purchase 178,500 common shares of the Company at an exercise price of \$0.76 with an expiry date of 19 December 2021.
- d. In November 2018, the Company entered into a consulting services agreement, for a period of 12 months, whereby the Company will pay the consultant a monthly fee of \$35,000 and 25,000 common shares at a deemed price of \$1.40.
- e. In November 2018, the Company entered into a consulting services agreement, for a period of 12 months, whereby the Company will pay the consultant a monthly fee of \$15,000 and 10,174 common shares at a deemed price of \$1.40.
- f. On 7 January 2019, the Company cancelled 890,000 stock options.
- g. In February 2019, the Company entered into a marketing services agreement, for a period of 6 months, whereby the Company will pay the service provider a monthly fee of \$22,000 and 69,600 for common shares
- h. On 28 February 2019, the Company issued 151,896 common shares of the Company to be held as security pursuant to a debt settlement agreement.