

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.

FINANCIAL STATEMENTS

MARCH 31, 2020



Leung Luo Pang LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.

FINANCIAL STATEMENTS

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CHARTERED PROFESSIONAL ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT

To the Shareholder of **Newgen Software Technologies Canada, Ltd.**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Newgen Software Technologies Canada, Ltd.** (the Company), which comprise the balance sheet as at March 31, 2020, the statement of income and retained earnings, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises ("ASPE").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ardell Luo.


Chartered Professional Accountants
Licensed Public Accountants

Richmond Hill, Canada
May 15, 2020

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.
STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended March 31	2020	2019
Revenue	\$ 2,084,933	\$ 2,221,100
Expenses		
Wages and benefits	777,924	520,291
Sub-contracts <i>(Note 8)</i>	715,950	1,276,872
Travel	149,827	130,855
Bad debts	104,952	52,773
Office and general <i>(Note 8)</i>	61,894	22,786
Commissions	55,116	26,004
Occupancy costs	51,242	48,042
Advertising and promotion	22,334	16,129
Telephone	14,687	9,820
Professional fees	9,426	8,178
Foreign exchange loss	2,686	5,019
Bank charges and interest	1,416	2,661
Amortization	2,386	1,556
	1,969,840	2,120,986
Income before income taxes	115,093	100,114
Provision for income taxes <i>(Note 5)</i>	30,476	26,607
Net income	84,617	73,507
Retained earnings, beginning of year	180,315	106,808
Retained earnings, end of year	\$ 264,932	\$ 180,315

The accompanying notes are an integral part of the financial statements

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.**STATEMENT OF CASH FLOWS**

For the year ended March 31

2020

2019

CASH PROVIDED BY (USED IN) THE FOLLOWING ACTIVITIES:**OPERATING ACTIVITIES**

Net income \$ 84,617 \$ 73,507

Add: items not involving cash

Amortization 2,386 1,556

87,003 75,063**Changes in non-cash working capital items**

Accounts receivable 117,989 (93,623)

Prepaid expenses and sundry (3,983) (1,396)

Accounts payable and accrued liabilities 63,058 (382,752)

Government remittances payable (8,263) 10,442

Income taxes payable 11,629 (3,095)

Deferred revenue 25,829 244,232

293,262 (151,129)**INVESTING ACTIVITIES**

Purchase of equipment (2,491) (1,430)

(2,491) (1,430)

Net increase (decrease) in cash 290,771 (152,559)

Cash, beginning of year 488,492 641,051

Cash, end of year \$ 779,263 \$ 488,492

The accompanying notes are an integral part of the financial statements

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2020

Newgen Software Technologies Canada, Ltd. ("the Company") was incorporated under the laws of the Province of Ontario on April 26, 2012. The Company is a subsidiary of Newgen Software Technologies Limited, which is incorporated and listed in India. The company is located in Ontario and provides software development, engineering and technical support services and license subscription to its customers across Canada through utilizing the resources of its parent company.

1. Summary of significant accounting policies

The financial statements of the Company have been prepared in accordance with Canadian accounting standards for private enterprises. The significant accounting policies followed by the Company are summarized below:

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates including those related to impairment of financial assets, useful life of equipment and revenue recognition. Management believes that the estimates and assumptions used in preparing its financial statements are reasonable and prudent; however, actual results could differ from those estimates.

Accounts receivable

Accounts receivable are stated at amounts due, net of provision for amounts estimated to be uncollectible.

Equipment

Equipment is stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives at the following rates and methods:

Computer equipment	-	straight line over 3 years
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Revenue recognition

Revenue for product engineering and support services is accounted for when there is persuasive evidence that an arrangement exists, the services have been rendered to the customers, the price is fixed or determinable, and collection is reasonably assured.

Revenue from solutions license subscription is recognized on a straight-line basis, whereby the total amount of cash to be received under a subscription agreement is recognized into income in equal periodic amounts over the term of the subscription agreement.

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2020

1. Summary of significant accounting policies (continued)

Income taxes

The Company uses the taxes payable method of accounting for income taxes. Under this method, the Company reports as an expense (income) of the period only the cost (benefit) of current income taxes payable determined in accordance with the rules established by taxation authorities.

Translation of foreign currencies

The Company uses the temporal method to translate its foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate in effect at the date of transaction. Revenues and expenses are translated at the average exchange rates prevailing during the year, except for amortization which are translated at historic rates. Exchange gains or losses are included in the statement of income.

Measurement of financial instruments

The Company initially measures its financial assets and liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate.

The Company subsequently measures all its financial assets and liabilities at cost or amortized cost. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

The Company has not designated any financial asset or liability to be measured at fair value.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

2. Accounts receivable

	2020	2019
Trade receivable	\$ 419,308	\$ 583,329
Provision for impairment	(10,184)	(56,216)
	\$ 409,124	\$ 527,113

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2020

3. Equipment

	Cost	Accumulated Amortization	2020 Net Book Value	2019 Net Book Value
Computer equipment	\$ 9,166	\$ 6,975	\$ 2,191	\$ 1,585

Amortization expense for the year amounted to \$1,886 (\$1056 for 2019).

4. Incorporation costs

	2020	2019
Cost	\$ 4,791	\$ 4,791
Accumulated amortization	(2,500)	(2,000)
	\$ 2,291	\$ 2,791

Amortization expense for the year amounted to \$500 (\$500 for 2019).

5. Income tax

The Company accounts for income taxes using the taxes payable method. The reconciliation of income tax computed at statutory rates to the provision for income taxes are as follows:

	2020	2019
Income (loss) before income taxes	\$ 115,093	\$ 100,114
Combined corporate income tax rate (%)	26.50	26.50
Computed income tax expense	30,499	26,529
Increase (decrease) in taxes resulting from:		
Tax on CCA in excess of amortization	(228)	(62)
Tax on non-deductible expenses	205	140
Income tax expense	\$ 30,476	\$ 26,607

6. Financial instruments

The Company is exposed to various risks through its financial instruments, without being exposed to concentration of risk. The following analysis provides a measure of the Company's risk exposure as at March 31, 2020.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk.

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2020

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk relate to its accounts receivable by providing credit to its customers in the normal course of operations. For these and other debts, the Company determines on a continuing basis, the probable losses and sets up provisions for losses based on the estimated realizable value where necessary.

The Company derived net sales from three (2019 - two) major customers amounting to approximately \$1,466,200 (2019 - \$871,400), representing 70% (2019 - 39%) of total revenues . Accounts receivable from the above significant customers at March 31, 2020 amounted to approximately \$209,300 (2019 - \$99,600).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk as a significant volume of its sales transactions are denominated in U.S. dollars. Unfavourable changes in the foreign exchange rate may impact earnings and accounts receivable.

Foreign exchange loss on monetary assets and liabilities in the amount of \$2,686 (2019 - \$5,019) are included in the determination of earnings.

At year end, the Company had the following amounts denominated in foreign currencies:

Accounts receivable	\$ 62,348 U.S.
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7. Contractual obligations

The Company is committed under a long-term lease for premises expiring in September 2021. Minimum annual lease payments (exclusive of the requirement to pay taxes, insurance and maintenance costs) over the next two years are approximately as follows:

Year ending March 31,	2021	\$ 53,640
	2022	26,820

NEWGEN SOFTWARE TECHNOLOGIES CANADA, LTD.
NOTES TO FINANCIAL STATEMENTS
For the year ended March 31, 2020

8. Related party transactions

Newgen Software Technologies Limited and the Company are related parties by virtue of control.

During the year, the Company engaged in transactions in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, as follows:

	2020	2019
Sub-contracts	\$ 715,950	\$ 1,278,463
Back office support charges included in office and general	34,234	-

As at March 31, 2020, trade account balance owing to the above-noted related party amounted to \$481,871 (2019 -\$484,163).