

SUBEX AMERICAS INC
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019
(ALL AMOUNTS ARE STATED IN US DOLLARS)

SUBEX AMERICAS INC

MARCH 31, 2019

(ALL AMOUNTS ARE STATED IN US DOLLARS)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of:
Subex Americas Inc

We have audited the consolidated balance sheet of Subex Americas Inc as at March 31, 2019, and the consolidated statements of comprehensive income, stockholder's equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that as of March 31, 2019 the Company has accumulated losses of \$125,024,624 and a working capital deficiency of \$103,582. These conditions, along with other matters set forth in Note 2, indicate circumstances regarding the Company's ability to continue as a going concern.

KNAV Professional Corporation

KNAV Professional Corporation
Chartered Professional Accountants
Authorized to Practice Public Accounting by the
Chartered Professional Accountants of Ontario

Toronto, Ontario
April 24, 2019

SUBEX AMERICAS INC
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2019
(ALL AMOUNTS ARE STATED IN US DOLLARS)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current		
Cash and cash equivalents	\$ 576,075	\$ 155,860
Accounts receivable	298,869	449,452
Unbilled receivables	<u>60,380</u>	<u>109,494</u>
	935,324	714,806
Long-term		
Property and equipment (note 4)	<u>-</u>	<u>2,836</u>
	<u>\$ 935,324</u>	<u>\$ 717,642</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 5)	<u>\$ 1,038,906</u>	<u>\$ 1,082,243</u>
	1,038,906	1,082,243
Long-term		
Due to related parties (notes 6 and 9)	<u>1,263,874</u>	<u>1,136,908</u>
	<u>2,302,780</u>	<u>2,219,151</u>
STOCKHOLDER'S EQUITY		
Share capital		
Authorized: unlimited common shares		
Issued and outstanding: 100 common shares	87,745,719	87,745,719
Additional paid-in-capital	28,674,940	28,674,940
Capital reserve	7,319,222	7,319,222
Other comprehensive loss - cumulative translation adjustment	(82,713)	(82,713)
Deficit	<u>(125,024,624)</u>	<u>(125,158,677)</u>
	<u>(1,367,456)</u>	<u>(1,501,509)</u>
	<u>\$ 935,324</u>	<u>\$ 717,642</u>
Approved:		

The accompanying notes are an integral part of these consolidated financial statements

SUBEX AMERICAS INC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED MARCH 31, 2019
(ALL AMOUNTS ARE STATED IN US DOLLARS)

	<u>2019</u>	<u>2018</u>
Revenue	\$ <u>1,388,210</u>	\$ <u>1,323,390</u>
Operating expenses		
Subcontracting charges (note 9)	1,031,071	967,352
Salaries, wages, and benefits	239,848	310,180
Sales support and consulting	-	210,011
General and administrative	9,771	35,512
Travel and entertainment (recovered)	8,165	(24,903)
Professional fees	31,742	47,195
Bad debts (recovered)	<u>(156,996)</u>	<u>156,996</u>
	<u>1,163,601</u>	<u>1,702,343</u>
Income (loss) from operations	<u>224,609</u>	<u>(378,953)</u>
Other expenses (income)		
Interest expense (note 8)	2,991	4,647
Other expenses	84,729	3,394
Foreign currency exchange loss	-	29,999
Write off of due to related party (note 9)	-	(736,000)
Sale of intellectual property (note 9)	-	(9,400,000)
Depreciation of capital assets (note 4)	<u>2,836</u>	<u>4,039</u>
	<u>90,556</u>	<u>(10,093,921)</u>
Net income	134,053	9,714,968
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<u>\$ 134,053</u>	<u>\$ 9,714,968</u>

The accompanying notes are an integral part of these consolidated financial statements

SUBEX AMERICAS INC

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

FOR THE YEAR ENDED MARCH 31, 2019

(ALL AMOUNTS ARE STATED IN US DOLLARS)

	<u>2019</u>	<u>2018</u>
Share capital, beginning of year	\$ <u>87,745,719</u>	\$ <u>87,745,719</u>
Share capital, end of year	\$ <u><u>87,745,719</u></u>	\$ <u><u>87,745,719</u></u>
Additional paid-in-capital, beginning of year	\$ <u>28,674,940</u>	\$ <u>28,674,940</u>
Additional paid-in-capital, end of year	\$ <u><u>28,674,940</u></u>	\$ <u><u>28,674,940</u></u>
Capital reserve, beginning of year	\$ <u>7,319,222</u>	\$ <u>7,319,222</u>
Capital reserve, end of year	\$ <u><u>7,319,222</u></u>	\$ <u><u>7,319,222</u></u>
Other comprehensive loss, beginning of year	\$ <u>(82,713)</u>	\$ <u>(82,713)</u>
Other comprehensive loss, end of year	\$ <u><u>(82,713)</u></u>	\$ <u><u>(82,713)</u></u>
Deficit, beginning of year	\$ (125,158,677)	\$ (134,873,645)
Total comprehensive income	<u>134,053</u>	<u>9,714,968</u>
Deficit, end of year	\$ <u><u>(125,024,624)</u></u>	\$ <u><u>(125,158,677)</u></u>
Total shareholder's deficiency	\$ <u><u>(1,367,456)</u></u>	\$ <u><u>(1,501,509)</u></u>

The accompanying notes are an integral part of these consolidated financial statements

SUBEX AMERICAS INC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2019
(ALL AMOUNTS ARE STATED IN US DOLLARS)

	<u>2019</u>	<u>2018</u>
Cash flows from (used in) operating activities		
Total comprehensive income for the year	\$ 134,053	\$ 9,714,968
Adjustments for:		
Depreciation of capital assets	2,836	4,039
Write off of due to related party (note 9)	<u>-</u>	<u>(736,000)</u>
	136,889	8,983,007
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	150,583	116,587
Decrease (increase) in unbilled receivables	49,114	376,082
Decrease (increase) in prepaid expenses & other current assets	-	5,353
Increase (decrease) in accounts payable and accruals	<u>(43,337)</u>	<u>(231,627)</u>
	<u>293,249</u>	<u>9,249,402</u>
Cash flows from (used in) financing activities		
Loan payable	-	(12,000,000)
Due from (to) related parties (note 9)	<u>126,966</u>	<u>2,723,344</u>
	<u>126,966</u>	<u>(9,276,656)</u>
Net increase (decrease) in cash and cash equivalents	420,215	(27,254)
Cash and cash equivalents, beginning of year	<u>155,860</u>	<u>183,114</u>
Cash and cash equivalents, end of year	<u>\$ 576,075</u>	<u>\$ 155,860</u>
Supplementary cash flow information		
Interest paid	<u>\$ 2,991</u>	<u>\$ 4,647</u>
Income tax paid (note 7)	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements

SUBEX AMERICAS INC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019
(ALL AMOUNTS ARE STATED IN US DOLLARS)

1. Nature of operations

Subex Americas Inc., formerly Syndesis Limited (the “Company”), is a leading provider of “Data Integrity Management” products which is known as ROC DIM. Data Integrity Management is a discovery and reconciliation tool. ROC DIM is the industry’s first Data Integrity Management solution for improving the quality data that drives key service provider processes, resulting in lower costs and higher service profitability. The Company has positioned solution around this tool in the space of Network Analytics. The Network Analytics include ROC DIM, ROC Asset Assurance and ROC Capacity Management. ROC Asset Assurance uses the basis product of ROC DIM to optimize the investment in Capex. ROC Asset Assurance is a pioneering solution to manage telecommunications assets across all dimensions of the asset life cycle and reduce capex substantially. The Company is a wholly owned subsidiary of Subex Limited (the “Shareholder”) who is publicly traded on the National Stock Exchange of India, the Bombay Stock Exchange. And the London Stock Exchange. The Company was acquired on April 1, 2007 and changed its name from Syndesis Limited to Subex Americas Inc. at that time. The Company operates and markets its telecommunications software products and related services throughout the world, and as such, operates mainly in North and South America.

2. Going concern and management’s plans

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payments of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. During the year, the Company had revenue of \$1,388,210 (2018 - \$1,323,390) and a net income of \$134,053 (2018 - \$9,714,968), an accumulated deficit of \$125,024,624 (2018 - \$125,158,676), and a working capital deficiency of \$103,582 (2018 - \$367,436). The Company’s ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and to continue to obtain borrowings from third parties and the parent company sufficient to meet current and future obligations and/or restructure the existing debt and payables. The Company has received a written letter of support from the shareholder who maintains the intent and ability to operate the Company as a going concern for the foreseeable future. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations. Management has identified opportunities to improve revenue and will also to look for additional financing other than the continuous support from the parent company.

3. Significant accounting policies

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of preparation

The accompanying consolidated financial statements are prepared in accordance with the accounting and reporting requirements of generally accepted accounting principles in the United States of America (“US GAAP”) to reflect the financial position, results of operations, and cash flows. The consolidated financial statements are for the years ended March 31, 2019 and March 31, 2018.

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Certain amounts in the previous period consolidated financial statements and notes have been reclassified to conform to the current year's presentation.

Principles of consolidation

The consolidated financial statements are prepared in United States Dollars ("US Dollars") and include the accounts of the Company and its wholly-owned subsidiaries. Upon consolidation, all intercompany accounts and transactions are eliminated.

Cash and cash equivalents

The Company considers all highly liquid investments and deposits with a remaining maturity of ninety days or less on the date of purchase to be cash and cash equivalents. Cash and cash equivalents comprise cash on hand and balance in checking account with bank.

Accounts receivable and allowance for doubtful accounts

Accounts receivable consist mainly of receivables from customers who have entered into a contract for services to be provided by the Company. The accounts receivable are recorded at the invoiced or contracted amount and do not bear interest. The Company follows specific identification method for recognizing an allowance for doubtful accounts. Management analyzes the composition of the accounts receivable aging, historical bad debts, current economic trends, and customer credit worthiness of each accounts receivable when evaluating the adequacy of the allowance for doubtful accounts. An allowance for doubtful accounts is recognized against the accounts receivable balance for uncollectable amounts due from customers. The Company has recorded an allowance for doubtful accounts of \$NIL (2018 - \$156,996).

Unbilled receivables and deferred revenue

Under certain customer contracts, the Company invoices progress billings once certain milestones are met. The milestone terms vary by customer and can include upon receipt of the customer purchase order, delivery, installation, and launch. As the systems are delivered, and services are performed, and all of the criteria for revenue recognition are satisfied, the Company recognizes revenue. If the amount of revenue recognized for financial reporting purposes is greater than the amount invoiced, an unbilled receivable is recorded. If the amount invoiced is greater than the amount of revenue recognized for financial reporting purposes, deferred revenue is recorded. Deferred revenue also includes prepayment of extended maintenance and supports contracts.

Revenue recognition

Revenue is recognized when it can be measured and collectability is reasonably assured. The revenue recognition policies for the significant lines of business are as follows:

The Company's core competency is in the application of sophisticated software technology for configuring, controlling, and analyzing communications infrastructure networks for telecommunication providers. The Company recognizes revenue in accordance with the provisions of ASC 985-605, "Software Revenue Recognition".

The Company's revenues are derived from product elements, comprised primarily of license fees and upgrades and royalties from technology licenses, and service elements, which can include post-contract customer support ("PCS"), consulting, installation and training.

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The Company recognizes revenue only when all of the following criteria are met: Persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. For contracts with multiple elements, the Company allocates revenue to the undelivered elements of a contract based on vendor specific objective evidence (“VSOE”) of fair value of those elements.

Product elements are recognized pursuant to a contract, when each element is delivered to the customer and the fee is fixed or determinable and collection of the related receivable is probable. If the fee due from the customer is not fixed or determinable, revenue is recognized as payments become due from the customer. If collectability is not considered probable, revenue is recognized when the fee is collected. Revenue from arrangements with customers who are not the ultimate users (primarily resellers) is recognized when the product is delivered, the fee is fixed or determinable, collection is probable and no significant Company obligations remain.

Service elements include PCS, which is generally paid in advance, is non-refundable, and is recognized ratably over the term of the agreement which is typically twelve months. Revenues from consulting, installation, and training services are recognized when the services are performed.

Product and service elements that have been prepaid but do not yet qualify for recognition as revenue under the Company’s revenue recognition policy are reflected as deferred revenue on the Company’s consolidated balance sheet.

Deferred income taxes

The Company accounts for income taxes under “Accounting for Income Taxes” under US GAAP. The deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected more likely to be realized in the future.

Foreign currency transactions

The Company’s functional currency is US dollars. Due to the nature of its operations, the Company regularly enters into transactions that are denominated in foreign currencies. All assets and liabilities denominated in foreign currencies are translated into US dollars using exchange rates in effect at the balance sheet date. Revenues and expenses are translated using the average exchange rate for the reporting period. The resulting cumulative translation adjustments are presented as a separate component of stockholders’ equity as accumulated other comprehensive income. Foreign currency transaction gains or losses are recorded directly in the consolidated statement of comprehensive income. Net foreign currency gain (loss) was \$NIL (2018 - \$(29,999)).

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

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assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reported periods. The accounting estimates that require management's most significant judgment include the recognition of revenue and the valuation of receivables and accounts payable and accrued liabilities. Actual results could differ materially from these estimates.

Fair value measurements and financial instruments

The Company adopted the accounting standard for applying fair value measurements to certain assets, liabilities, and transactions that are periodically measured at fair value. The adoption did not have a material effect on the Company's financial position, results of operations or cash flows.

Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 – unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Property and equipment

Property and equipment are recorded at cost. Amortization is provided annually on a basis designed to amortize the asset over their useful lives using the following annual rates:

Computer equipment – 3 year straight line

4. Property and equipment

			<u>2019</u>	<u>2018</u>
Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Computer equipment	<u>\$12,118</u> <u>\$12,118</u>	<u>\$NIL</u>	<u>\$2,836</u>	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Accounts payable and accrued liabilities

	<u>2019</u>	<u>2018</u>
Sales tax payable	\$ 925,777	\$ 921,570
Other payables	113,129	160,673
	<hr/> \$ 1,038,906	<hr/> \$ 1,082,243

6. Due from (to) related parties

The amounts due from (to) related parties Subex Limited, Subex (Asia Pacific) Pte Ltd, Subex Inc, Subex (UK) Ltd, have no set repayment terms and do not bear any interest except a portion of \$NIL (2018 - \$NIL) receivable by the Company which bears interest at 10% per annum. The related parties have indicated that there will be no demand for repayment within the next fiscal year, so the amount has been classified as long-term.

7. Income taxes

The Company has made no provision for income taxes as the Company has income but also has losses carried forward. Deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely that not (a likelihood of greater than 50 percent) that some portion or all of the deferred tax assets will not be realized. Realization of the future tax benefits related to deferred tax assets are dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carry forward period. Management has considered these factors in reaching its conclusion that a valuation allowance for financial reporting purposes will be recorded. Management has reached this decision based on the fact that they believe that it is not likely the Company will substantially realize the deferred tax asset because they do not expect to generate sufficient levels of income. The Company has a potential deferred tax asset of \$17,315,429 (2018 - \$17,341,929) based on a tax rate of 26.5%. The significant components of the Company's deferred tax asset are as follows:

The Company has accumulated non-capital loss carry forwards of \$65,341,240 (2018 - \$65,441,240) which are available to offset future taxable income and were incurred as follows (the losses can be carried forward for 20 years from the date incurred):

	<u>2019</u>	<u>2018</u>
2007	\$ 12,613,544	\$ 12,713,544
2008	26,272,002	26,272,002
2009	9,114,402	9,114,402
2010	12,136,588	12,136,588
2011	1,494,785	1,494,785
2012	890,285	890,285
2013	2,819,634	2,819,634
	<hr/> \$ 65,341,240	<hr/> \$ 65,441,240

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The Company adopted new accounting guidance issued by the FASB related to the application of accounting for uncertainty in income taxes. Under this guidance, the Company assesses the likelihood of the financial statement effect of a tax position that should be recognized when it is more likely than not that the position will be sustained upon examination by a taxing authority based on the technical merits of the tax position, circumstances, and information available as of the reporting date. Management has assessed the impact of this guidance as it relates to the Company's operations and there was no impact to the financial statements as a result of implementing this guidance. There are no current tax positions that would result in an asset or liability for taxes being recognized in the United States as any such taxes are the responsibility of the individual members.

	<u>2019</u>	<u>2018</u>
Income before income tax	\$ 134,053	\$ 9,714,968
Tax rate	26.5%	26.5%
Expected income tax expense	35,524	2,574,467
Valuation allowance	35,524	2,574,467
Actual income tax expense	\$ -	\$ -

8. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, unbilled receivables, prepaid expenses and other current assets, loans payable, accounts payable and accrued liabilities, and due from (to) shareholder.

The fair value of cash and cash equivalents, accounts receivable, unbilled receivables, prepaid expenses and other current assets, loans payable, and accounts payable and accrued liabilities approximate their carrying values due to their short term nature.

The fair value of the amount due from (to) shareholder is not practicable to estimate due to the related party nature of the underlying transactions.

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from its customers. The Company believes that there is no unusual exposure associated with the collection of its receivables. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

The Company is subject to currency risk through its non-domestic sales. The Company invoices a portion of its foreign currency sales, and as such, changes in the exchange rate affect the operating results of the Company. The Company closely monitors changes in foreign currency and reacts accordingly. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. Fluctuations in currency exchange rates could impact the Company's business in the future.

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company is exposed to liquidity risk mainly with respect to its loans payable and due to shareholder. Refer to note 2 on going concern assessment.

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9. Related party transactions

Subex Limited is the shareholder of the Company and also owns the following companies which are related parties by virtue of common ownership: Subex Asia Pacific - Singapore, Subex Assurance LLP, Subex Inc, Subex Limited – Bangalore, Subex Middle East FZE, and Subex UK Limited. The Company received from (paid to) related parties \$NIL (2018 - \$357,483) for subcontracting revenue, \$NIL (2018 - \$(130,300)) for sales support and consulting expenses, \$306,979 (2018 - \$385,330) for marketing revenue, and \$NIL (2018 - \$9,400,000) for the sale of intellectual property comprising a data integrity management business. The Company received (paid) net interest and financing costs of \$NIL (2018 - \$(79,711)), subcontracting expenses of \$(1,031,071) (2018 - \$(967,352)), and wrote off due to related parties of \$NIL (2018 – \$736,000). The aforementioned revenue (expense) transactions during the year were incurred 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: Subcontracting charges are calculated as cost plus 5% for software and related services provided by the shareholder, sales support and consulting expenses are based on an allocated portion of support staff salaries. Advances received from (paid to) related parties for the year were \$126,966 (2018 - \$2,723,344). The amount due from (to) related parties at year end was \$(1,263,874) (2018 - \$(1,136,908)). Subex Assurance LLP reimbursed to the Company USD \$8,618 relating to foreign exchange.

10. Subsequent events

The Company evaluated all events and transactions that occurred after March 31, 2019 through April 24, 2019, the date the financial statements are issued. Based on the evaluations, the Company is not aware of any events or transactions that would require recognition or disclosure in the financial statements.

11. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.