



**Fiscal Year Ended January 31, 2018**

**June 15, 2018**

**B-SCADA, INC**

**547 W. FORT ISLAND TRAIL, SUITE A CRYSTAL FIVER, FL 34429**

**B-SCADA, INC.**

**TABLE OF CONTENTS**

|                                                                                                 |    |
|-------------------------------------------------------------------------------------------------|----|
| <a href="#"><u>PART I. FINANCIAL INFORMATION</u></a>                                            | 03 |
| <a href="#"><u>ITEM 1. FINANCIAL STATEMENTS</u></a>                                             | 03 |
| <a href="#"><u>CONSOLIDATED BALANCE SHEETS</u></a>                                              | 03 |
| AT JANUARY 31, 2018 AND 2017 (UNAUDITED)                                                        | 03 |
| <a href="#"><u>CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS [UNAUDITED]</u></a> | 04 |
| FOR THE THREE MONTHS ENDED JANUARY 31, 2018 AND 2017                                            | 04 |
| <a href="#"><u>CONSOLIDATED STATEMENTS OF CASH FLOWS [UNAUDITED]</u></a>                        | 05 |
| FOR THE THREE MONTHS ENDED JANUARY 31, 2018 AND 2017                                            | 05 |
| <a href="#"><u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]</u></a>                   | 06 |
| <a href="#"><u>COMPARISON OF THE THREE MONTHS RESULTS OF OPERATIONS [UNAUDITED]</u></a>         | 09 |
| FOR THE THREE MONTHS ENDED JANUARY 31, 2018 AND 2017                                            | 09 |
| <a href="#"><u>PART II. OTHER INFORMATION</u></a>                                               | 10 |
| <a href="#"><u>ITEM 2. MANAGEMENT'S DISCUSSION ON OPERATIONS</u></a>                            | 10 |

# **PART I. FINANCIAL INFORMATION**

## **ITEM 1. FINANCIAL STATEMENTS**

### **B-SCADA, INC.**

### **CONSOLIDATED BALANCE SHEETS** **[UNAUDITED]**

|                                                                                                                                                         | 31-Jan<br>2018           | Oct 31,<br>2017          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Assets</b>                                                                                                                                           |                          |                          |
| <b>Current Assets</b>                                                                                                                                   |                          |                          |
| Cash and Cash Equivalents                                                                                                                               | \$ 636,941               | \$ 518,093               |
| Accounts Receivable – Net                                                                                                                               | 175,323                  | 93,032                   |
| Accrued Revenue                                                                                                                                         | -                        | 0                        |
| Inventory                                                                                                                                               | 95,681                   | 95,856                   |
| IVA Tax Receivable – Net                                                                                                                                | -                        | 35,762                   |
| Prepaid Expenses and Other Current Assets                                                                                                               | 12,255                   | 8,033                    |
| Total Current Assets                                                                                                                                    | <u>920,200</u>           | <u>750,776</u>           |
| <b>Property and Equipment – Net</b>                                                                                                                     | <u>(165,431)</u>         | <u>192,526</u>           |
| <b>Other Assets</b>                                                                                                                                     |                          |                          |
| Intangible Assets -- Net                                                                                                                                | 420,645                  | 276,187                  |
| Deferred Income Tax                                                                                                                                     | 389,500                  | 389,500                  |
| Security Deposits                                                                                                                                       | 1,839                    | 919                      |
| Total Other Assets                                                                                                                                      | <u>811,984</u>           | <u>666,606</u>           |
| Total Assets                                                                                                                                            | <u><u>1,566,753</u></u>  | <u><u>1,609,908</u></u>  |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                             |                          |                          |
| <b>Current Liabilities</b>                                                                                                                              |                          |                          |
| Accounts Payable                                                                                                                                        | 98,194                   | 22,700                   |
| Accrued Liabilities                                                                                                                                     | -                        | 17,061                   |
| Deferred Revenue                                                                                                                                        | 0                        | 433                      |
| Mortgage Payable – Current                                                                                                                              | 0                        | 18,659                   |
| Total Current Liabilities                                                                                                                               | <u>98,194</u>            | <u>58,853</u>            |
| <b>Long Term Liabilities</b>                                                                                                                            |                          |                          |
| Mortgage Payable                                                                                                                                        | <u>0</u>                 | <u>49,130</u>            |
| Total Liabilities                                                                                                                                       | <u>98,194</u>            | <u>107,983</u>           |
| <b>Commitments and Contingencies</b>                                                                                                                    | <u>0</u>                 | <u>0</u>                 |
| <b>Stockholders' Equity</b>                                                                                                                             |                          |                          |
| Preferred Stock, \$0.0001 Par Value, 5,000,000 Shares<br>Authorized and Unissued                                                                        |                          |                          |
| Common Stock, \$0.0001 Par Value; 10,000,000 Shares<br>Authorized; Shares Issued and Outstanding,<br>3,059,341 at January 31, 2017 and October 31, 2016 | 3,060                    | 3,060                    |
| Additional Paid in Capital                                                                                                                              | 8,669,068                | 8,669,068                |
| Accumulated Other Comprehensive Loss                                                                                                                    |                          | (23,368)                 |
| Accumulated Deficit                                                                                                                                     | (7,203,568)              | (7,146,835)              |
| Total Stockholders' Equity                                                                                                                              | <u>1,468,559</u>         | <u>1,501,925</u>         |
| Total Liabilities and Stockholders' Equity                                                                                                              | \$ <u>1,566,753</u><br>0 | \$ <u>1,609,908</u><br>0 |

See the accompanying notes to the consolidated financial statements

**B-SCADA, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**[UNAUDITED]**

|                                         | For the Three Months Ended<br>January 31, |              |
|-----------------------------------------|-------------------------------------------|--------------|
|                                         | 2018                                      | 2017         |
| <b>Revenue</b>                          |                                           |              |
| Technology Licensing and Support        | \$ 76,983                                 | \$ 154,325   |
| Commercial Software                     | 97,098                                    | 21,963       |
| SaaS Revenue                            | 2,292                                     | 928          |
| Other Hardware/Software Sales           | 447                                       | 2,476        |
| Other / Misc Revenue                    | 64,406                                    |              |
| Total Revenues                          | 241,226                                   | 179,692      |
| COGS                                    | 23,431                                    | 2,576        |
| Gross Profit                            | 217,795                                   | 177,116      |
| <b>Operating Expenses</b>               |                                           |              |
| Technology Licensing and Support Exp    | -                                         | -            |
| Commercial Software Exp                 | -                                         | 61,354       |
| Sales and Marketing                     | 18,759                                    | 57,942       |
| Research and Development                | 231                                       | 89,880       |
| General and Administrative              | 156,268                                   | 104,350      |
| Depreciation and Amortization           | 28,231                                    | 4,161        |
| Total Operating Expenses                | 203,489                                   | 317,687      |
| Operating Income (Loss)                 | 14,307                                    | (140,571)    |
| <b>Other Income (Expenses)</b>          |                                           |              |
| Interest Income                         | 417                                       | 301          |
| Interest Expense                        | (2,485)                                   | (1,079)      |
| Other Income (Expenses)                 | (4,241)                                   |              |
| Interest Expense-Related Party          |                                           |              |
| Total Other Income (Expenses) - Net     | (6,309)                                   | (778)        |
| Income (Loss) Before Income Taxes       | 7,998                                     | (141,349)    |
| Benefit from Income Taxes               | -                                         | (14,925)     |
| Net Income (Loss)                       | 7,998                                     | (126,424)    |
| Other Comprehensive Income (Loss)       |                                           |              |
| Foreign Currency Translation Adjustment |                                           | (25,713)     |
| Comprehensive Income (Loss)             | \$ 7,998                                  | \$ (152,137) |

See the accompanying notes to the consolidated financial statements

**B-SCADA, INC.****CONSOLIDATED STATEMENT OF CASH FLOW**  
**[UNAUDITED]**

|                                                                                     | For the Three Months Ended<br>January 31, |                   |
|-------------------------------------------------------------------------------------|-------------------------------------------|-------------------|
|                                                                                     | 2018                                      | 2017              |
| <b>Operating Activities</b>                                                         |                                           |                   |
| Net (Loss)                                                                          | \$ 7,998                                  | \$ (126,424)      |
| Adjustments to Reconcile Net(Loss) to Net Cash<br>Provided by Operating Activities: |                                           |                   |
| Deferred Income Tax Benefit                                                         | -                                         | (14,925)          |
| Depreciation and Amortization                                                       | 28,231                                    | 4,161             |
| Stock-Based Compensation                                                            | -                                         | 2,414             |
| Changes in Assets and Liabilities:                                                  |                                           |                   |
| Accounts Receivable                                                                 | (82,291)                                  | 16,414            |
| Accrued Revenue                                                                     | -                                         | -                 |
| Deferred Revenue                                                                    | (433)                                     | 2,800             |
| Inventory                                                                           | 175                                       | (940)             |
| IVA Tax Receivable-Net                                                              | 35,762                                    | 57,467            |
| Prepaid Expenses and Other Current Assets                                           | (4,222)                                   | (2,686)           |
| Security Deposits                                                                   | (920)                                     | 331               |
| Accounts Payable and Accrued Liabilities                                            | 58,433                                    | (45,004)          |
| Net Cash (Used for) Operating Activities                                            | <u>42,731</u>                             | <u>(106,391)</u>  |
| <b>Investing Activities</b>                                                         |                                           |                   |
| Capitalized Technology Development                                                  | (144,458)                                 | 22,914            |
| Acquisition of Property and Equipment                                               | -                                         | -                 |
| Net Cash Provided by (Used for) Investing Activities                                | <u>(144,458)</u>                          | <u>22,914</u>     |
| <b>Financing Activities</b>                                                         |                                           |                   |
| Payment of Mortgage Payable                                                         | -                                         | (4,355)           |
| Proceeds from Sale of Common Stock                                                  | (19,012)                                  | (16,599)          |
| Net Cash Provided by (Used for) Financing Activities                                | <u>(19,012)</u>                           | <u>(20,954)</u>   |
| Foreign Currency Translation Effect                                                 | <u>355,439</u>                            | <u>(260)</u>      |
| Change in Cash and Cash Equivalents                                                 | 234,701                                   | (104,691)         |
| Cash and Cash Equivalents – Beginning of Period                                     | <u>-</u>                                  | <u>845,511</u>    |
| Cash and Cash Equivalents – End of Period                                           | <u>\$ 234,701</u>                         | <u>\$ 740,820</u> |
| <b>Supplemental Disclosures of Cash Flow Information</b>                            |                                           |                   |
| Cash paid during the period for:                                                    |                                           |                   |
| Interest and Other Income / Expenses                                                | \$ (6,309)                                | \$ 778            |
| Income Taxes                                                                        | \$ -                                      | \$ -              |

See the accompanying notes to the consolidated financial statements

**B-SCADA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]**  
**JANUARY 31, 2018**

**(1) Nature of Business and Basis of Presentation**

B-Scada, Inc. (“B-Scada”, the “Company”, “we” or “us”), a Delaware corporation, was originally formed under the name Firefly Learning, Inc. in May 2001.

B-Scada is in the business of developing software and hardware products for the visualization and monitoring of data in residential, commercial and heavy industries. Our HMI (Human Machine Interface) software and SCADA (Supervisory Control and Data Acquisition) and Internet of Things (IoT) products are utilized in the petrochemical, electricity distribution, transportation, facilities management and manufacturing industries. B-Scada licenses portions of its technology for use in the products of smaller software firms and Fortune 500 companies. B-Scada also markets and sells a line of wireless sensors used for monitoring various information like temperature, pressure, voltage and water detection. The sensors are used in a variety of light commercial applications. Our products are marketed and sold globally and offered through a sales channel of system integrators and resellers.

**(2) Summary of Significant Accounting Policies**

Unaudited Interim Statements - The accompanying unaudited interim consolidated financial statements as of January 31, 2018, and for the three months ended January 31, 2018 and 2017 have been prepared in accordance with accounting principles generally accepted for interim financial statements. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated financial position as of January 31, 2018, and the consolidated results of operations for the three months ended January 31, 2018 and 2017 and cash flows for the three months ended January 31, 2018 and 2017. The consolidated results of operations for the three months ended January 31, 2018 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation - The consolidated financial statements include the accounts of B-Scada, Inc. and our wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Concentration of Credit Risk - Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable.

We maintain our cash and cash equivalents in accounts with major financial institutions in the form of demand deposits. Deposits in these banks may exceed the amounts of insurance provided on such deposits. At January 31, 2018, we had approximately \$306,000 and \$332,000 in cash in two separate financial institutions, both in excess of the \$250,000 FDIC insured limit.

Concentrations of credit risk with respect to trade accounts receivable are limited. We routinely assess the financial strength of customers and; based upon factors concerning credit risk, we establish an allowance for doubtful accounts. Based on this assessment, management established \$0 allowance for doubtful account as of January 31, 2018, and January 31, 2017. Management believes that accounts receivable credit risk exposure is limited.

Inventory – Inventory is stated at the lower of cost or market, using First – In, First – Out (FIFO) method. Market is determined based on net realizable value. In the year ended October 31, 2017, we incurred a charge of \$96,000 for an inventory valuation allowance still existing in January 31, 2018.

**B-SCADA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]**  
**JANUARY 31, 2018**

**(2) Summary of Significant Accounting Policies (Continued)**

Impairment of Long-Lived Assets - We review our long-lived assets, including intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related assets or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value based on market value (when available) or discounted expected cash flows of those assets and is recorded in the period in which the determination is made. In the year ended October 31, 2017, we had an impairment loss of \$250,682 related to sensor development losses.

Intangible assets not subject to amortization are tested annually for impairment and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. These tests were performed for the year ended October 31, 2017 and first quarter ended January 31, 2018 where it was determined that the carrying value of the asset was not impaired.

Foreign Currency Translation - We consider the U.S. dollar ("US\$") to be our functional currency. B-Scada Spain considers the Euro ("Euro") to be its functional currency. Assets and liabilities are translated into US\$ at the period end exchange rate. Income and expense amounts are translated using the average rates during the period. Gains and losses resulting from translating foreign currency financial statements are included in accumulated other comprehensive income or loss, a separate component of stockholders' equity.

Technology Development - We capitalize costs to develop technology for sale once technological feasibility is established. Costs incurred to establish technological feasibility are charged to expense when incurred. Capitalization of technology costs cease when the related products are available for sale and at this time the capitalized costs are amortized on a straight-line method over the remaining estimated economic life of the product.

Subsequent Events - The Company evaluated subsequent events, which are events or transactions that occurred after January 31, 2018 through the date of the issuance of the accompanying consolidated financial statements.

**(3) Intangible Assets**

During 2015, the Company signed an agreement with an electronics manufacturing firm for the development of a sensor radio design prototype. The total amount capitalized at October 31, 2017 remained at approximately \$305,900. The intangible asset being amortized over an estimated 3-year life. Amortization expense for the years ended October 31, 2017 and 2016 was \$101,970 (\$25,500 /qtr) and \$42,488. Amortization of the electronics manufacturing costs began in June 2016.

**(4) Stockholder's Equity**

On April 13, 2016, B-Scada, Inc. (the "Company") filed a Certificate of Amendment to its Certificate of Incorporation (the "Certificate of Amendment") to affect a reverse stock split (the "Reverse Stock Split") of the Company's outstanding Common Stock at an exchange ratio of 1-for-10, effective at 5:00 p.m. EDT on April 29, 2016. As a result of the Reverse Stock Split, each ten shares of the Company's Common Stock owned by a stockholder was automatically combined into one new share of Common Stock, with any fractional shares that would otherwise be issuable as a result of the Reverse Stock Split rounded up to the next largest whole share. The Reverse Stock Split applied to all shares of the Company's Common Stock issued and outstanding, all treasury shares, and all vested or unvested options to purchase Common Stock of the Company. Therefore, the total number of shares of Common Stock outstanding was reduced and is reflected in the accompanying consolidated financial statements retroactively for all periods presented. At the time of the split the number of authorized shares of Common Stock was not reduced in connection with the Reverse Stock Split and remained the same.

On January 6, 2016, effective as of January 11, 2016, we entered into a new Stock Purchase Agreement with Yorkmont pursuant to which Yorkmont purchased 335,000 shares of our common stock for an aggregate purchase price of \$670,000 (\$2.00 per share). In the Stock Purchase Agreement, the parties made to each other certain customary representations concerning themselves and the validity and enforceability of the agreement.

**B-SCADA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]**  
**JANUARY 31, 2018**

**4) Stockholder's Equity (Continued)**

On February 22, 2017, B-Scada submitted a Certificate of Correction with the State of Delaware changing the authorized shares of common stock from 100,000,000 to 10,000,000 to coincide with the ten (10) for one (1) reverse stock split filed April 13, 2016. The Company's obligation to pay franchise tax was reduced due to this filing.

On May 3, 2016, the Board of Directors granted three new non-qualified stock option agreements and terminated and cancelled one option to purchase 250,000 shares of stock at \$.48 per share dated February 11, 2015. Two of the non-qualified options grant the Optionee the right to purchase an aggregate of 5,000 shares of our common stock at an exercise price of \$1.30 per share. The option vests as follows: 1,333 shares immediately; 1,334 shares on May 3, 2017; 1,333 shares on May 3, 2018. The third non-qualified option grant the Optionee the right to purchase an aggregate of 25,000 shares of our common stock at an exercise price of \$1.50 per share. The option vests as follows: 16,667 shares immediately; 8,333 shares on February 11, 2017.

In August 2017, we sold a warrant to purchase up to 15,000 shares of our common stock at an executed price of \$.80 per share for proceeds of \$500.00

**(5) Commitments and Contingencies**

**Leases**

B-Scada Spain subleased office space in Spain from an entity related to the two principal employees in Spain. The lease was for a term of five years commencing November 1, 2014. Base rent was \$1,163 (Euro 1,050) per month for the first fourteen months after which it increased to \$1,395 (Euro 1,260) per month for the remainder of the term. There is an annual escalation based on the Spanish National General Index of Consumer Prices and we are responsible for the related costs, such as, taxes, utilities and maintenance. This lease was terminated as of October 31, 2017

**Compensation Agreements**

In connection with the formation of B-Scada Spain, we entered into agreements with two individuals and a related entity in Spain to establish and maintain our Spanish office and for employment services. In October 2014, we made an advance payment of approximately \$182,000 for services related to the establishment of our office in Spain. Such services included, among other necessary services, securing and setting up the office location, interviewing and hiring qualified personnel and translating technical documents, marketing materials, web site, etc. These services were completed in the first quarter of fiscal 2015 and at such time this amount was expensed. Contingent upon continued employment, the two individuals were each paid 12.5% (25% in total) of the annual net profit of B-Scada Spain. Payment was made for the year ended October 31, 2017 with the discontinued operations of the Spain office.

We also entered into employment agreements with the two individuals effective November 1, 2014. The agreements provided for annual salaries of Euro 42,615 (approximately US \$47,192) and Euro 30,000 (approximately US \$33,210), respectively, and commissions as defined in our sales commission policy, among other customary terms, such as, vacation pay and qualified expense reimbursements. These agreements ended October 2017.

**(6) Company Background**

In October 2005; pursuant to an exchange agreement, we acquired all of the issued and outstanding shares of capital stock of Mobiform Software, Ltd. ("Mobiform Canada", a Canadian corporation), in exchange for 14,299,593 shares of our common stock and changed our name to Mobiform Software, Inc. Effective September 14, 2010, Mobiform Canada was dissolved. On October 19, 2012, we changed our name to B-Scada, Inc. On October 15, 2014, we formed a wholly-owned subsidiary in Spain, B-Scada Soluciones Industriales SL ("B-Scada Spain") to provide improved sales, service and support to Europe, Latin America, the Middle East and Africa. On August 20, 2015, we formed a wholly-owned U.S. subsidiary, Monitor Sensing Technologies, Inc., a Florida corporation, which operates the manufacturing of our wireless sensors. On October 10, 2016, a decision was made to close the wholly-owned subsidiary in Spain. In January 2018, we closed our office in Spain which was used as a third-party distributor on B-Scada software sales. In March of 2017, B-Scada Inc. filed with the state of Florida and the state of Delaware, Articles of Merger of B-Scada Inc (surviving corporation) with Monitor Sensing Technologies, Inc (merging corporation) effective March 31, 2017.

**(7) Subsequent Events**

## Results of the Operations (Unaudited)

### Comparison of the Three Months Ended January 31, 2018 and 2017

The following tables set forth, for the periods indicated, certain items from the consolidated statements of operations along with a comparative analysis of ratios of costs and expenses (percentage) to revenues.

|                                         | For the Three Months Ended |               |           |               |
|-----------------------------------------|----------------------------|---------------|-----------|---------------|
|                                         | January 31,                |               |           |               |
|                                         | 2018                       |               | 2017      |               |
|                                         | Amounts                    | % of Revenues | Amounts   | % of Revenues |
| <b>Revenue</b>                          |                            |               |           |               |
| Technology Licensing and Support        | 76,983                     | 31.9%         | 154,325   | 85.9%         |
| Commercial Software                     | 97,098                     | 40.3%         | 21,963    | 12.2%         |
| Saas Revenue                            | 2,292                      | 1.0%          | -         | 0.0%          |
| Other Hardware/Software Sales           | 447                        | 0.2%          | 928       | 0.5%          |
| Other / Misc Revenue                    | 64,406                     | 26.7%         | 2,476     | 1.4%          |
| Total Revenues                          | 241,226                    |               | 179,692   |               |
| <br>COGS                                | 23,431                     | 9.7%          | 2,576     | 1.4%          |
| <br>Gross Profit                        | 217,795                    | 90.3%         | 177,116   | 98.6%         |
| <b>Operating Expenses</b>               |                            |               |           |               |
| Technology Licensing and Support Exp    | -                          | 0.0%          | -         | 0.0%          |
| Commercial Software Exp                 | -                          | 0.0%          | 61,354    | 34.1%         |
| Sales and Marketing                     | 18,759                     | 7.8%          | 57,942    | 32.2%         |
| Research and Development                | 231                        | 0.1%          | 89,880    | 50.0%         |
| General and Administrative              | 156,268                    | 64.8%         | 104,350   | 58.1%         |
| Depreciation and Amortization           | 28,231                     | 11.7%         | 4,161     | 2.3%          |
| Total Operating Expenses                | 203,489                    |               | 317,687   |               |
| <br>Operating Income (Loss)             | 14,307                     | 5.9%          | (140,571) | -78.2%        |
| <b>Other Income (Expenses)</b>          |                            |               |           |               |
| Interest Income                         | 417                        |               | 301       |               |
| Interest Expense                        | (2,485)                    |               | (1,079)   |               |
| Other Income (Expenses)                 | (4,241)                    |               | -         |               |
| Interest Expense-Related Party          |                            |               |           |               |
| Total Other Income (Expenses) - Net     | (6,309)                    | -2.6%         | (778)     | -0.4%         |
| <br>Income (Loss) Before Income Taxes   | 7,998                      | 3.3%          | (141,349) | -78.7%        |
| <br>Benefit from Income Taxes           | -                          | 0.0%          | (14,925)  | -8.3%         |
| <br>Net Income (Loss)                   | 7,998                      | 3.3%          | (126,424) | -70.4%        |
| <br>Other Comprehensive Income (Loss)   |                            |               |           |               |
| Foreign Currency Translation Adjustment | -                          |               | (25,713)  |               |
| <br>Comprehensive Income (Loss)         | 7,998                      |               | (152,137) |               |

See the accompanying notes to the consolidated financial statements

## **PART II. OTHER INFORMATION**

### **ITEM 2. MANAGEMENT'S DISCUSSION ON OPERATIONS**

Fiscal 2016-2017 saw a change in how B-Scada operates from both a product and operational perspective.

The technology licensing revenue of our business is based on software we developed and licensed to several businesses, primarily Fortune 500 companies. This technology was reliant on some technology from Microsoft which has become obsolete. As such, the technology licensing and support revenues based on this obsolete technology continue to decline and will fall sharply in the next fiscal year.

We started to focus more on our Internet of Things ('IoT') platform, resulting in our first source of revenue from Software as a Service ('SaaS'). We are now hosting solutions from a variety of different companies on our platform. We would like to grow this portion of the business, but it is challenging. There are some reports that as many as 700 IoT platforms now exist in the market. Many are very well funded driving up the cost of marketing such solutions and creating a great deal of brand confusion for consumers. We will continue to promote our IoT solutions and grow this business where possible, but there is a great deal of headwind.

The market for Supervisory Control and Data Acquisition ('SCADA') has been essentially flat for B-Scada for the past few years. Various attempts to grow this business have not been successful. This class of software application has now been commoditized and prices have been dropping as new players enter the market. The complexity of the systems has increased, driving up support costs. The costs of customer support and customer acquisition now exceed revenue that we can charge for the product. As a result, we will be making some considerable changes to our business model in 2018 for our SCADA software solutions. The new business model will be based on the professional services model utilized by many successful companies in the open source arena.

The Professional Services Model for software has been around for a long time. The basic premise of the model is to provide the software free while services such as consulting, installation, support and training are only available for a fee. The Open Source community and companies like Red Hat are prime examples of successful companies that leverage this business model. In the use of the Status Enterprise System, we see a wide variety of companies with projects of varying degrees of complexity. Many projects are simple, and do not require support from B-Scada staff at all. Others are very complex, pushing the system to the edge of its ability and requiring a great deal of time and technical support from B-Scada. Yet the price paid by the client for each of these solutions is the same when they purchase the software. We believe that customers should be billed based on how much B-Scada expertise they require. Time dedicated by B-Scada staff for training, consulting services and custom development should be the measure from which billing is based. As such, B-Scada has now moved to a Professional Services Model for its Status Enterprise system. Status Enterprise is now available freely for download. Basic support (B-Scada Forum and ScadaUniversity.com) are included with the system. Premium Support is also available if needed by B-Scada staff at an hourly rate.

Premium support services include:

- Technical Support – How-To questions, troubleshooting and advice on best practices. Any time dedicated to technical support that is the result of a defect in B-Scada software is not billable. Support is available by phone, email and webinar as needed.
- Training – Online or onsite training is available. Travel time and expenses will be added for onsite training.
- Data Model Design – Evaluation and implementation of best practices for model design.
- Screen Design – Design and development of mimics for your live data. Other graphics design services.
- Custom Data Connectors – Development of additional device connectivity to the B-Scada system.
- Features – Development of new custom features for the system.

B-Scada switched to this business model in January of 2018. Initial response from our existing customers has been positive. New business activity and inquiries have increased significantly.

On the operations side, B-Scada has been very conservative with its resources. We have reduced expenses, slashed our marketing budget, and reduced our headcount. Additional expenses were cut related to the sale of our office building in January 2018. Our goal is to have our expenses in line with our revenue for 2018, possibly generating a slight profit for the upcoming fiscal year. We will evaluate our new business model as the year progresses to determine if it will return the company to growth and profitability.