

# SUMMARY FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

November 7<sup>th</sup>, 2018

## CHANGE IN PRESENTATION CURRENCY

**All amounts herein are in U.S. Dollars unless otherwise stated.**

Effective January 1, 2018, the Company changed its presentation currency from Canadian dollar to the United States dollar. The change in presentation currency is to better reflect the total Company's business activities and focus and improves users' ability to compare our financial results with other businesses in the industry. The change in reporting currency should result in less volatility from the effect of foreign currencies on reported revenue and growth.

## OVERVIEW

The following "Summary Financial Information and Management's Discussion and Analysis of Results of Operations and Financial Condition" ("MD&A") was prepared by Management of ProntoForms Corporation ("ProntoForms" or the "Company") and approved by the Board of Directors of the Company (the "Board of Directors"). Throughout this MD&A, unless otherwise specified, "ProntoForms", "Company", "we", "us" and "our" refer to ProntoForms Corporation and its subsidiaries.

This interim MD&A is an update of management's discussion and analysis provided in the Company's annual filings dated March 16, 2018 and filed on [www.SEDAR.com](http://www.SEDAR.com) and includes a discussion of the results of operations and cash flows for the three and nine months ended September 30, 2018. Such discussion and comments on liquidity and capital resources of the Company should be read in conjunction with the unaudited interim financial report for the three and nine months ended September 30, 2018. The interim financial report has been prepared in U.S. Dollars and using International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB").

Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the interim filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

Alvaro Pombo, Chief Executive Officer, and David Croucher, Chief Financial Officer, in accordance with National Instrument 52-109 ("NI 52-109"), have both certified that they have reviewed the interim financial report and this MD&A (the "interim Filings") and that, based on their knowledge having exercised reasonable diligence, that (a) the interim Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the interim filings; and (b) the interim financial report together with the other financial information included in the interim Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented in the interim Filings.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis Disclosure Controls and Procedures and Internal Controls over Financial Reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## FORWARD LOOKING STATEMENTS

Certain statements in this MD&A may constitute forward-looking statements, including those identified by the expressions such as “anticipate”, “believe”, “estimate”, “expect”, “foresee”, “intend”, “plan”, or similar expressions to the extent that they relate to the Company or its management. The forward-looking statements are not historical facts but reflect the Company’s current assumptions and expectations regarding future events. Forward-looking statements in this MD&A include but are not limited to statements regarding subscriber additions, the variability of our revenues going forward, anticipated market trends and technology adoption by our customers and industry peers, anticipated growth in revenue and expenses, the potential impacts of additional expenditures on revenue growth rates, the sufficiency of cash on hand and the Company’s ability to obtain financing necessary to continue operations. There can be no assurance that such statements will prove to be accurate, and actual results and future events may differ materially from those anticipated in such statements. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations and assumptions, including but not limited to the following: (i) there can be no assurance that the Company will earn any profits in the future or that profitability, if achieved, will be sustained; (ii) if the Company is not able to achieve profitability, it will require additional equity or debt financing, and there can be no assurances that the Company will be able to obtain additional financial resources on favourable commercial terms or at all; (iii) the Company’s quarterly revenues and operating results may fluctuate, which may harm its results of operations; (iv) the loss of business from a major customer, operator or other reseller could reduce the Company’s sales and harm its business and prospects; (v) a portion of the Company’s sales are through operators and other resellers, and an adverse change in the Company’s relationship with any of such operators or other resellers may result in decreased sales; (vi) the market for software as a service is at a relatively early stage of development, and if it does not develop or develops more slowly than expected, the Company’s business will be harmed; (vii) the Company faces competition from other software solution providers, which may reduce its market share or limit the prices it can charge for its software solutions; (viii) a global economic downturn or market volatility may adversely affect our business and/or our ability to complete new financings; (ix) the business of the Company may be harmed if it does not continue to penetrate markets; (x) the success of the business depends on the Company’s ability to develop new products and enhance its existing products; (xi) the Company’s growth depends in part on the success of its strategic relationships with third parties; (xii) the financial condition of third parties may adversely affect the Company; (xiii) the US dollar may fluctuate significantly compared to the Canadian dollar, causing fluctuations in earnings and cash flow as most of our revenues are received in US dollars while most of our expenses are payable in Canadian dollars; (xiv) subscription services which produce the majority of the Company’s revenue are hosted by a third party service for the Company and any interruption in service could harm its results of operations; (xv) the Company may be liable to its customers or third parties if it is unable to collect data or it otherwise loses data; (xvi) the Company may be liable for the handling of personal information; (xvii) intellectual property claims against the Company may be time consuming, costly to defend, and disruptive to the business; (xviii) the Company uses open source software in connection with its products which exposes it to uncertainty and potential liability; (xix) economic uncertainty and downturns in the software market may lead to decreases in the Company’s revenue and margins; (xx) any significant changes in the technological paradigm utilized for building or delivering applications in Smartphone devices could harm the Company’s business and prospects; and (xxi) if the Company loses any of its key personnel, its operations and business may suffer. Please see the Company’s MD&A for the year ended December 31, 2017 filed on [www.SEDAR.com](http://www.SEDAR.com) and dated March 16, 2018 for a more complete discussion of these and other risks. Readers are cautioned not to place undue reliance on forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

## **BUSINESS OVERVIEW**

ProntoForms' mobile workflow solution is used in over 2,500 businesses to collect and analyze field data with smartphones and tablets. The solution is an intuitive, secure, and scalable software as a service (SaaS) for rapidly mobilizing field business processes with a low total cost of ownership. The solution can be used standalone, or as a mobile-first front end to existing systems of record. The solution is a no code platform that allows business users and IT teams to quickly create and deploy custom mobile applications.

We have a broad cross section of customers in diverse industries, however our prime focus is in four key areas where we have technology/reseller partnerships and portfolios of accounts; Field Service Management, Environmental Health & Safety, Fleet Management and Field Sales Enablement. Typically, our initial sale is to the leaders of field or sales operations. In larger organizations, we often obtain broader adoption through internal IT channels as they value to the simplicity, functionality, and portability of the solution. We are focusing on a replicable expansion approach for these medium and large enterprise customers to achieve broader adoption in other regions and across other business processes.

We sell directly and co-market our solution with multiple partners that include independent software vendors, implementation partners, and other industry specific resellers in multiple geographies. While our direct sales resources provide us access to decision makers in a wide range of companies, we are targeting new enterprise sales through partners and resellers. We believe that these partners and resellers provide faster and better access to the decision makers in large enterprises. We have shifted resources and investment to accelerate sales through partners and resellers that have existing large enterprise relationships.

We compete in a mobile business application market that remains highly fragmented. Recent developments have seen early consolidation among niche providers focused on a narrow set of technology or targeted to a very specific vertical industry segment. While we do not consider these patterns to be unusual for an emerging industry, market dynamics, combined with our company size, suggest that the abundance of applications, devices, and software vendors will continue to impact decision-making and implementation cycles by our customers.

The conditions outlined above could add significant variability, and we caution readers that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as the only indication of likely future performance or annual operating results.

## **OUTLOOK**

The threat of technology disrupting business, the increased demand for mobile apps, and the shortage of resources to build them, is influencing field service executives and IT teams to look into rapid mobile application development frameworks to complement their field force automation initiatives. In addition, the rapid evolution of other infrastructure enablers, including smartphones and tablets, cloud services for back office systems, data storage, and demand for data and analytics to measure and improve business processes is another favourable trend supporting our growth.

As at September 30, 2018, we had not yet achieved profitable operations and had accumulated losses since inception. Our success depends on our ability to increase revenues and achieve profitable operations or obtain additional financing through debt and/or equity arrangements. We believe that our cash on hand at the date of this report is sufficient to fund our operations through at least 2019.

While we currently expect that certain sales-related efforts and financing initiatives, if needed, will provide sufficient cash flow for us to continue operations in our present form, there is a risk that we may not be able to obtain sufficient other additional financing or that such arrangements may result in dilution to existing shareholders. Turmoil and uncertainty in the financial and business markets may impact our ability to raise additional financing proceeds and the terms related to the financing. If we are unable to secure required additional financing, we may not be able to meet our obligations as they come due, or to fully implement our intended plan of operations, raising substantial doubts as to our ability to continue as a going concern. There is no assurance that we will attain sufficient revenues to achieve and sustain profitability.

See "Forward Looking Statements" above.

## **RECENT DEVELOPMENTS**

### **2018**

During the nine months ended September 30, 2018, 490,000 common shares were issued upon the exercise of options, for proceeds of \$84,447 (\$110,100 CAD).

### **2017**

During the nine months ended September 30, 2017, 379,400 common shares were issued upon the exercise of agents' warrants and 1,334,532 common shares were issued upon the exercise of options, for proceeds of \$86,609 (\$113,820 CAD) and \$183,689 (\$243,267 CAD).

On June 21, 2017, the Company completed a private placement resulting in gross proceeds of \$4,343,406 (\$5,774,396 CAD). The private placement involved the sale of 15,195,780 units at an issue price of \$0.38 CAD per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to acquire one common share of the Company at an additional purchase price of \$0.48 CAD per share at any time up to 24 months from the closing date.

Proceeds of \$4,064,453 (\$5,274,400 CAD) were brokered subject to a cash fee equal to \$238,562 (\$309,579 CAD) plus 814,683 compensation options that entitles the holder to purchase common shares at the \$0.38 CAD for a period of twelve months from the closing date. These compensation options have since expired unexercised.

## KEY PERFORMANCE INDICATORS

We use certain key performance indicators to assess performance and evaluate our business. Such key performance indicators do not have a definition in IFRS and may be calculated in a manner different from similar key performance indicators used by other companies. We do not consider such key performance indicators to be “non-GAAP financial measures” as such term is commonly used because they are not derived from our financial statements.

### Annual Recurring Revenue (ARR)

Annual Recurring Revenue (“ARR”) is an element we use to estimate our recurring revenue for future reporting periods and is a measure we use to assess the performance of the business over time. We caution that recurring revenue will fluctuate by the amount and timing of additions and deletions in the following periods and by the foreign exchange impact on non-US Dollar ARR.

ARR is calculated as the annual equivalent of the recurring elements of our contracts with customers that are in effect at the end of the period. Non-US Dollar ARR is converted at the period end exchange rate. As at September 30, 2018, 88% of ARR was denominated in US Dollars.

	2018			2017			
	September 30	June 30	March 31	December 31	September 30	June 30	March 31
ARR	11,546,322	10,911,159	10,340,071	9,765,336	9,403,551	8,945,726	8,777,666
ARR Growth Rate	5.8%	5.5%	5.9%	3.8%	5.1%	1.9%	0.5%

  

	2016			
	December 31	September 30	June 30	March 31
ARR	8,730,922	8,431,962	8,450,405	7,928,657
ARR Growth Rate	3.5%	-0.2%	6.6%	4.9%

## PRESENTATION OF FINANCIAL STATEMENTS

### Selected Quarterly Financial Information (in U.S. Dollars)

#### Statement of Operations Data

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	3,177,846	2,437,727	8,832,559	7,198,841
Loss from operations	(510,975)	(820,856)	(1,914,745)	(2,293,627)
Net loss	(642,066)	(1,038,421)	(2,091,043)	(2,804,386)
Total comprehensive loss	(620,996)	(903,340)	(2,151,628)	(2,588,922)
Non-GAAP Loss from operations [1]	(423,233)	(688,842)	(1,637,564)	(1,882,160)
Non-GAAP Net loss [1]	(530,075)	(828,774)	(1,705,410)	(2,198,302)
Basic and diluted loss per share	(0.01)	(0.01)	(0.02)	(0.03)

**Balance Sheet Data**

	As at September 30, 2018	As at December 31, 2017
Cash and cash equivalents	3,854,543	5,074,489
Net working capital	2,666,192	4,438,519
Total assets	6,268,745	7,355,011
Long-term liabilities	2,765,415	2,759,935
Total liabilities	6,057,821	5,354,088
Total shareholders' equity	210,924	2,000,923

**DISCUSSION OF OPERATIONS**
**Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017  
(in U.S. Dollars)**

	Three months ended				Three months ended			
	September 30, 2018	September 30, 2017	Change from Q3 2017 to Q3 2018		June 30, 2018	Change from Q2 2018 to Q3 2018		
<b>Revenue</b>								
Recurring revenue	\$ 2,780,814	\$ 2,246,331	\$ 534,483	24%	\$ 2,624,680	156,134	6%	
Professional and other services	397,032	191,396	205,636	107%	281,485	115,547	41%	
	<u>3,177,846</u>	<u>2,437,727</u>	<u>740,119</u>	<u>30%</u>	<u>2,906,165</u>	<u>271,681</u>	<u>9%</u>	
<b>Cost of revenue</b>								
Recurring revenue	338,029	232,881	105,148	45%	303,639	34,390	11%	
Professional and other services	261,886	225,835	36,051	16%	203,818	58,068	28%	
	<u>599,915</u>	<u>458,716</u>	<u>141,199</u>	<u>31%</u>	<u>507,457</u>	<u>92,458</u>	<u>18%</u>	
Gross margin	2,577,931	1,979,011	598,920	30%	2,398,708	179,223	7%	
<b>Expenses</b>								
Research and development	1,046,828	967,915	78,913	8%	1,030,752	16,076	2%	
Selling and marketing	1,415,250	1,269,579	145,671	11%	1,406,359	8,891	1%	
General and administrative	626,828	562,373	64,455	11%	588,666	38,162	6%	
	<u>3,088,906</u>	<u>2,799,867</u>	<u>289,039</u>	<u>10%</u>	<u>3,025,777</u>	<u>63,129</u>	<u>2%</u>	
Loss from operations	(510,975)	(820,856)	309,881	-38%	(627,069)	116,094	-19%	
Foreign exchange gain (loss)	(57,427)	(75,901)	18,474	nm	46,245	(103,672)	nm	
Interest and accretion	(87,558)	(119,499)	31,941	nm	(85,489)	(2,069)	nm	
Change in fair value of derivative liability	13,894	(22,165)	36,059	nm	(7,501)	21,395	nm	
Net loss	(642,066)	(1,038,421)	396,355	-38%	\$ (673,814)	\$ 31,748	-5%	
<b>Other Comprehensive loss</b>								
Foreign currency translation adjustment	21,070	135,081	(114,011)	nm	(33,995)	55,065	nm	
<b>Total comprehensive loss</b>	<b>\$ (620,996)</b>	<b>\$ (903,340)</b>	<b>\$ 282,344</b>	<b>-31%</b>	<b>\$ (707,809)</b>	<b>\$ 86,813</b>	<b>-12%</b>	

nm - not considered meaningful

**Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017**  
**(in U.S. Dollars)**

	Nine months ended			
	September 30, 2018	September 30, 2017		
<b>Revenue</b>				
Recurring revenue	\$ 7,900,562	\$ 6,614,954	\$ 1,285,608	19%
Professional and other services	931,997	583,887	348,110	60%
	<b>8,832,559</b>	<b>7,198,841</b>	<b>1,633,718</b>	<b>23%</b>
<b>Cost of revenue</b>				
Recurring revenue	909,865	635,283	274,582	43%
Professional and other services	683,005	652,540	30,465	5%
	<b>1,592,870</b>	<b>1,287,823</b>	<b>305,047</b>	<b>24%</b>
Gross margin	<b>7,239,689</b>	<b>5,911,018</b>	<b>1,328,671</b>	<b>22%</b>
<b>Expenses</b>				
Research and development	3,130,861	2,788,619	342,242	12%
Selling and marketing	4,228,203	3,717,076	511,127	14%
General and administrative	1,795,370	1,698,950	96,420	6%
	<b>9,154,434</b>	<b>8,204,645</b>	<b>949,789</b>	<b>12%</b>
Loss from operations	<b>(1,914,745)</b>	<b>(2,293,627)</b>	<b>378,882</b>	<b>-17%</b>
Foreign exchange gain (loss)	78,889	(148,488)	227,377	nm
Interest and accretion	(253,973)	(288,441)	34,468	nm
Change in fair value of derivative liability	(1,214)	(73,830)	72,616	nm
Net loss	<b>(2,091,043)</b>	<b>(2,804,386)</b>	<b>713,343</b>	<b>-25%</b>
<b>Other Comprehensive loss</b>				
Foreign currency translation adjustment	(60,585)	215,464	(276,049)	nm
<b>Total comprehensive loss</b>	<b>\$ (2,151,628)</b>	<b>\$ (2,588,922)</b>	<b>\$ 437,294</b>	<b>-17%</b>

nm - not considered meaningful

Our profitability measures have improved as revenue has increased, particularly recurring revenue at a greater rate than on operating expenses. The Company had a net loss of \$642,066 and \$2,091,043 and total comprehensive loss of \$620,996 and \$2,151,628 respectively for the three and nine months ended September 30, 2018 compared to a net loss of \$1,038,421 and \$2,804,386 and total comprehensive loss of \$903,340 and \$2,588,922 respectively for the three and nine months ended September 30, 2017. Non-GAAP net loss (see non-GAAP measures) for the three months ended September 30, 2018 was \$530,075 down from \$585,170 for the previous second quarter of 2018 and down from \$828,774 for the comparable third quarter of 2017. Non-GAAP net loss for the nine months ended September 30, 2018 was \$1,705,410 down from \$2,198,302 for the comparable nine months ended September 30, 2017.

Loss from operations (see additional GAAP measures) for the three and nine months ended September 30, 2018 was \$510,975 and \$1,914,745 respectively, compared to loss from operations of \$820,856 and \$2,293,627 for the comparable three and nine months ended September 30, 2017. Non-GAAP loss from operations (see non-GAAP measures) for the three and nine months ended September 30, 2018 was \$423,233 and \$1,637,564 respectively, compared to a Non-GAAP loss from operations of \$688,842 and \$1,882,160 respectively for the comparable three and nine months ended September 30, 2017.

## Revenue

We earn recurring revenue primarily from our ProntoForms and related services provided on a subscription basis.

We also generate other services revenue by offering professional services such as consultancy, form and output configuration and training. After the initial subscription sale, customers may purchase additional professional services for the deployment of additional business processes with incremental forms, outputs and training to additional teams.

Our revenue is generated through a combination of direct and indirect sales. We have entered into distribution agreements with several resellers across North America, South America and Western Europe, as well as certain system integrators, mobile device manufacturers, and mobile operators. Our current focus is on building sales through direct and select partner and reseller channels as we believe this will provide us with the best opportunity for broad based subscription revenue growth. We expect that this increasingly global distribution network will provide us with broad worldwide reach to capitalize on the expected growth in the mobile business application software market.

### Revenue detail

	Three months ended			Change from	
	September 30, 2018	June 30, 2018	September 30, 2017	Previous 2018 Q2	Comparable 2017 Q3
Revenue					
Recurring revenue	\$ 2,780,814	\$ 2,624,680	\$ 2,246,331	6%	24%
Professional and other services					
Professional services revenue	386,962	264,293	146,125	46%	165%
Other services revenue	10,070	17,193	45,271	-41%	-78%
	<u>\$ 3,177,846</u>	<u>\$ 2,906,166</u>	<u>\$ 2,437,728</u>	<u>9%</u>	<u>30%</u>

	Nine months ended		Change from
	September 30, 2018	September 30, 2017	Comparable 2017
Revenue			
Recurring revenue	7,900,562	6,614,954	19%
Professional and other services			
Professional services revenue	880,077	478,704	84%
Other services revenue	51,921	105,182	-51%
	<u>8,832,560</u>	<u>7,198,840</u>	<u>23%</u>

Total revenue for the three months ended September 30, 2018 was \$3,177,846 representing an increase of 9% over the second quarter 2018 revenue of \$2,906,166 and 30% increase over the comparable third quarter of 2017 revenue of \$2,437,728. Total revenue for the nine months ended September 30, 2018 was \$8,832,560 representing an increase of 23% over the comparable nine months in 2017.

Recurring revenue for the three months ended September 30, 2018 was \$2,780,814 compared to \$2,624,680 in the second quarter of 2018, and compared to \$2,246,331 for the comparable third quarter of 2017, representing an increase of 6% and 24% respectively. Recurring revenue for the nine months ended September 30, 2018



was \$7,900,562 representing an increase of 19% over the comparable nine months in 2017.

Recurring revenue from non-operator channels increased to \$2,085,501 in the third quarter of 2018 from \$1,891,488 in the second quarter of 2018, and compared to \$1,484,469 for the comparable third quarter of 2017, representing non-operator revenue increase of 10% over the previous quarter and 40% increase over the comparable 2017 second quarter.

Recurring revenue from operator channels decreased to \$695,313 in the third quarter of 2018 from \$733,192 in the second quarter of 2018, and compared to \$761,862 for the comparable third quarter of 2017, representing operator revenue decrease of 5% over the previous quarter and 9% decrease over the comparable 2017 second quarter. This decrease was primarily caused by some operator end customers moving to a direct relationship.

Professional services revenue was \$386,962 for the third quarter of 2018 compared to \$264,293 in the second quarter of 2018 and \$146,125 for the comparable third quarter in 2017. Professional service revenue mainly relates to the deployment of new subscriptions and the increases in the period were driven primarily by large enterprise contracts. See "Forward Looking Statements" above.

Other services revenue was \$10,070 for the third quarter of 2018, compared to \$17,193 in the second quarter of 2018 and \$45,271 for the comparable third quarter in 2017. Revenue from these contracts is recognized as the services are performed and is subject to variability from the availability of contracts from customers and availability of resources to perform the work due to competing marketing and product development objectives.

### Cost of Revenue and Gross Margin

Cost of recurring revenue consists of hosting, software and support department costs. Cost of professional and other services revenue includes personnel and other costs for deployment and analytics services and other marketing and development costs as needed.

	Three months ended		
	September 30,	June 30,	September 30,
	2018	2018	2017
Gross Margin on:			
Total revenue	81%	83%	81%
Recurring revenue	88%	88%	90%
Professional services	34%	28%	-30%
Other services	19%	20%	21%
		Nine months ended	
		September 30,	September 30,
		2018	2017
Gross Margin on:			
Total revenue		82%	83%
Recurring revenue		88%	91%
Professional services		32%	-19%
Other services		20%	19%

Recurring revenue gross margins have decreased slightly from 90% in September 2017 to 88% in the third quarter of 2018 due to additional security and support costs.

## **Research and Development Expenses**

Research and development expenses consist primarily of remuneration paid to engineering personnel and independent contractors whom we occasionally use to provide additional technical capacity on a short-term basis. Other research and development expenses include travel, rent and other occupancy costs for our engineering and technical support personnel.

For the nine months ended September 30, 2018, research and development expense increased to \$3,130,861 from the \$2,788,619 for the comparable nine months of 2017. Research and development expenses are shown net of Government investment tax credits (“ITC’s”) and other proceeds of approximately \$96,000 for the first three quarters of 2018 compared to approximately \$121,000 for the same period in 2017. We expect that the ITC’s will accrue at approximately \$15,000 to \$20,000 per quarter in the short term and we will continue to pursue additional funding under Government funding programs.

Gross research and development costs increased over the first three quarters of 2018 and we expect R&D expense to grow at a moderate pace for the remainder of 2018 as we continue to expand our product capability. See “Forward Looking Statements” above.

## **Selling and Marketing Expenses**

Our sales and marketing expenses consist primarily of compensation, including sales commissions, paid to our sales, business development and marketing personnel. Other significant sales and marketing expenses include travel and other advertising, promotion and trade show costs.

Our sales and marketing expenses increased in the nine months ended September 30, 2018 to \$4,228,203 from \$3,717,076 for the comparable first nine months of 2017. Sales and marketing expense increased from prior year primarily due to increased spending on other advertising, promotion, and trade shows. We expect that sales and marketing expense will increase with added resources and with the accrual of variable sales compensation on increased sales. See “Forward Looking Statements” above.

## **General and Administrative Expenses**

Our general and administrative expenses consist primarily of remuneration paid to executive, finance, legal and corporate administrative staff. Other significant general and administrative expenses include legal and accounting professional fees, travel and insurance.

Our general and administrative expenses increased to \$1,795,370 for the nine months ended September 30, 2018 compared to \$1,698,950 for the comparable three quarters of 2017. We expect that general and administrative expenses will continue to increase moderately as we add infrastructure for security and to support growth in operations and subscribers. See “Forward Looking Statements” above.

## **Foreign Exchange Gain (Loss) and Interest Expense**

Foreign exchange gain (loss) relates primarily to the impact of the relative strength of the US dollar against the Canadian dollar for Canadian dollar expenses and liabilities. The Company realized a gain of approximately \$78,889 in first three quarters of 2018 due to the effect on net US dollar monetary assets from the US dollar increasing in value compared to the Canadian dollar.

## **Interest and accretion**

Interest and accretion relates primarily to the interest on the \$4 million CAD five-year secured term credit facility entered into in August 2016 (the "2016 BDCC loan") between the Company and BDC Capital Inc. ("BDCC"), a wholly-owned subsidiary of Business Development Bank of Canada. The 2016 BDCC loan includes interest of 7% per annum that is accrued and paid monthly on the first \$1,524,800 (\$2 million CAD) advance under the 2016 BDCC loan received in 2016, the second \$751,300 (\$1 million CAD) advance under the 2016 BDCC loan received in late March 2017 and the third \$797,100 (\$1 million CAD) advance under the 2016 BDCC loan received in November 2017. In addition, accretion of the discounts applied at the inception of the loan resulting from loan costs and the bifurcation of the derivative liability and the warrants issued to the debt holder from the loan amount.

## **Change in fair value of derivative liability**

The derivative liability relates to the interest ratchet increase if annual recurring revenue growth is less than 30% calculated based on the audited year-end financial statements beginning with the year ended December 31, 2016. As a result of the annual recurring revenue growth in 2017, the interest rate has increased by 1.25% to 8.25% in 2018. The derivative liability is revalued by management at the end of each reporting period.

## **Foreign currency translation adjustment**

Effective January 1, 2018, the Company changed its presentation currency from Canadian dollar to the United States dollar. The difference arising from translation from the functional currency to the presentation currency are recorded as currency translation adjustments in other comprehensive loss.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2018, the Company had cash and cash equivalents of \$3,854,543 and net working capital of \$2,704,719. We manage our capital, being cash and cash equivalents, shareholders' equity and debt, with the primary objective of safeguarding working capital for use in operations. We may periodically use debt in the future to finance capital requirements. The Board of Directors has not established capital benchmarks or other targets.

### **Operations**

Cash used in operating activities for the nine months ended September 30, 2018 totaled \$1,059,284 compared to \$1,927,429 for the comparable nine months in 2017. The decrease in cash used in operating activities is driven primarily by the lower net loss and larger deferred revenue collected from customers.

We intend to continue to increase spending with the objective of growing our subscriber base and resulting revenues but we plan to control the amount we spend so that the net cash outflow from operations is managed against available liquidity and operational targets. See "Forward Looking Statements" above.

## Financing Activities

During the nine months ended September 30, 2018, 490,000 common shares were issued upon the exercise of options, for proceeds of \$84,447 (\$110,100 CAD).

During the nine months ended September 30, 2017, 379,400 common shares were issued upon the exercise of agents' warrants and 1,334,532 common shares were issued upon the exercise of options, for proceeds of \$86,609 (\$113,820 CAD) and \$183,689 (\$243,267 CAD).

On June 21, 2017, the Company completed a private placement resulting in gross proceeds of \$4,343,406 (\$5,774,396 CAD). The private placement involved the sale of 15,195,780 units at an issue price of \$0.38 CAD per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to acquire one common share of the Company at an additional purchase price of \$0.48 CAD per share at any time up to 24 months from the closing date.

Proceeds of \$4,064,453 (\$5,274,400 CAD) were brokered subject to a cash fee equal to \$238,562 (\$309,579 CAD) plus 814,683 compensation options that entitles the holder to purchase common shares at the \$0.38 CAD for a period of twelve months from the closing date. These compensation options have since expired unexercised.

## Investing Activities

Purchases of property and equipment increased from \$62,287 for the nine months ended September 30, 2017 to \$100,093 for the nine months ended September 30, 2018 and relate primarily for computers and office equipment for the day to day activities of employees. We currently have no material commitments for capital expenditures.

## RECENT ACCOUNTING PRONOUNCEMENTS

### *IFRS 9 Financial Instruments ("IFRS 9")*

The IASB issued the final version of IFRS 9 on July 24, 2014, which replaces IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging as these items are part of a separate IASB project that is currently ongoing. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9. This Standard introduces an amended hedging model which aligns hedge accounting more closely with an entity's risk management activities and also includes a new financial asset impairment model which is based on expected losses rather than incurred losses. This new Standard supersedes all prior versions of IFRS 9. The effective date for this standard began for annual periods beginning on or after January 1, 2018. The Company has transitioned to the standard effective January 1, 2018. IFRS 9 requires the Company to record expected credit losses on all trade receivables, either on a 12-month or lifetime basis. There was no impact on previously reported results. The Company has determined that the adoption of this new standard did not have a material impact on the current period financial statements.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued by the IASB on May 28, 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can

elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual period beginning on or after January 1, 2018.

The Company has transitioned to the standard effective January 1, 2018 and is using the modified retrospective approach. The Company has capitalized certain sales commissions and expensed these contract costs on a straight-line basis over the expected life of the related customer relationship. The Company did not make any retrospective adjustment and has determined that the adoption of this new revenue standard did not have a significant impact on the current period financial statements.

#### *IFRS 16 – Leases (“IFRS 16”)*

The IASB issued a new standard, IFRS 16 on January 13, 2016, which supersedes IAS 17 Leases. The new standard brings most leases on the balance sheet for lessees under a single model and eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged. The new standard will come into effect for periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

### **RELATED PARTY TRANSACTIONS, OTHER OBLIGATIONS AND CONTINGENCIES**

The Company leases office premises from a company controlled by the Chairman of the Board, Terence Matthews, valued in accordance with the contract terms. In addition to lease payments, the Company has a commitment for exterior signage in 2019 as well as an insignificant software as a service commitments. The existing and new leases, exterior signage and software commitments have the following minimum annual payments:

	\$
2018 (October through December)	150,354
2019	620,728
2020	601,083
2021	591,508
2022	603,789
2023 and beyond	352,210

For the three and nine months ended September 30, 2018, the expense incurred under this lease was \$142,400 and \$426,310 (2017 - \$142,522 and \$395,722). The Company had \$Nil (2017 - \$Nil) owing related to rent associated with these leased premises at September 30, 2018.

Loans totalling \$415,147 (\$537,407 CAD) have been issued to the CEO, Alvaro Pombo, to purchase common shares. The loans are non-interest bearing and principal is repayable at any time on or before the maturity dates. During the three months ended September 30, 2018, the maturity dates of the CEO Share Purchase Loans were extended from September 5, 2018 to September 5, 2019.

The 2,668,488 common shares acquired under the CEO Share Purchase Loans are pledged as security against the share purchase loans and are held as security by the Company until such time as the individual loans are repaid. The share purchase loans are immediately due and payable to the Company upon the sale of the common shares or upon the termination of employment, subject to certain conditions being met. The market value of the underlying common shares for the CEO Share Purchase Loans as at September 30, 2018 was \$680,264 (\$880,601 CAD).

Despite their legal form, the CEO Share Purchase Loans are accounted for similar to the grant of an option under IFRS. As such, for accounting purposes, the common shares issued and the share purchase loans granted under the loan and share pledge agreements are not recognized as outstanding until such time as

payments are received on the loan balances. The \$83,006 (\$107,451 CAD) Related Party Loan Receivable for related tax remittances is treated as a current receivable.

The following table provides a summary of the rent and the Company's other contractual obligations outstanding as at September 30, 2018:

	Payments due by period			
	Total	Year 1	Years 2 - 3	Greater than 3 Years
Office and equipment lease obligations	\$ 2,919,672	\$ 620,728	\$ 1,191,998	\$ 1,106,946
Derivative Liability - BDC Loan	309,000	57,938	251,063	-
Long-term Debt - BDC Loan	3,090,000	-	3,090,000	-
	<u>\$ 6,318,672</u>	<u>\$ 678,666</u>	<u>\$ 4,533,061</u>	<u>\$ 1,106,946</u>

## SUMMARY OF OUTSTANDING SHARES AND DILUTIVE INSTRUMENTS

The authorized capital of the Company consists of an unlimited number of common shares, of which 110,700,963 common shares were issued and outstanding as of the date of this MD&A. In addition, the Company has warrants outstanding to purchase up to an aggregate of 11,947,890 common shares.

The stock option plan (the "Option Plan") of the Company is administered by the Board of Directors, which is responsible for establishing the exercise price (at not less than the Discounted Market Price as defined in the policies of the TSX Venture Exchange) and the vesting and expiry provisions. The maximum number of common shares reserved for issuance for options that may be granted under the Option Plan is 17,179,583. Options granted under the Option Plan to purchase up to an aggregate of 14,003,027 common shares are issued and outstanding.

Assuming that all of the outstanding options and warrants are vested and exercised, 136,651,880 common shares would be issued and outstanding on a fully diluted basis.

## QUARTERLY INFORMATION

Effective January 1, 2018, the Company changed its presentation currency from Canadian dollar to the United States dollar. The tables below provide full Statements of Comprehensive Loss presented in US Dollars.

	Three months ended			Three months ended			
	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	
<b>Revenue</b>							
Recurring revenue	2,780,814	2,624,680	2,495,068	2,376,458	2,246,331	2,204,412	2,164,211
Professional and other services	397,032	281,485	253,480	272,229	191,396	217,956	174,535
	3,177,846	2,906,165	2,748,548	2,648,687	2,437,727	2,422,368	2,338,746
<b>Cost of Revenue</b>							
Recurring revenue	338,029	303,639	268,197	259,342	232,881	205,617	196,785
Professional and other services	261,886	203,818	217,301	269,004	225,835	230,383	196,322
	599,915	507,457	485,498	528,346	458,716	436,000	393,107
Gross Margin	2,577,931	2,398,708	2,263,050	2,120,341	1,979,011	1,986,368	1,945,639
<b>Expenses</b>							
Research and development	1,046,828	1,030,752	1,053,281	1,056,771	967,915	930,297	890,407
Selling and marketing	1,415,250	1,406,359	1,406,594	1,338,013	1,269,579	1,202,642	1,244,855
General and administrative	626,828	588,666	579,876	678,326	562,373	559,668	576,909
	3,088,906	3,025,777	3,039,751	3,073,110	2,799,867	2,692,607	2,712,171
Loss from operations	(510,975)	(627,069)	(776,701)	(952,769)	(820,856)	(706,239)	(766,532)
Foreign exchange gain (loss)	(57,427)	46,245	90,071	(8,385)	(75,901)	(61,325)	(11,262)
Interest and accretion	(87,558)	(85,489)	(80,926)	(86,558)	(119,499)	(101,975)	(66,967)
Change in fair value of derivative liability	13,894	(7,501)	(7,607)	(9,830)	(22,165)	(26,136)	(25,529)
Net loss	(642,066)	(673,814)	(775,163)	(1,057,542)	(1,038,421)	(895,675)	(870,290)
<b>Share-based compensation included in accounts:</b>							
Cost of revenue	8,894	4,396	14,055	16,918	7,728	6,308	9,029
Research and development	15,699	8,741	26,018	31,588	16,053	14,830	23,299
Selling and marketing	23,644	13,599	43,934	58,795	38,334	35,014	50,894
General and administrative	39,505	18,831	59,865	80,231	69,898	81,232	58,848
	87,742	45,567	143,872	187,532	132,013	137,384	142,070
Weighted average number of shares outstanding, basic and diluted	107,766,859	107,524,142	107,524,142	107,474,577	107,418,744	92,760,990	90,635,594
Net loss per common share, basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

	Three months ended			
	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
<b>Revenue</b>				
Recurring revenue	2,204,222	2,064,064	1,985,450	1,871,851
Professional and other services	174,140	256,951	249,675	210,351
	<u>2,378,362</u>	<u>2,321,015</u>	<u>2,235,125</u>	<u>2,082,202</u>
<b>Cost of Revenue</b>				
Recurring revenue	236,498	215,434	208,576	209,445
Professional and other services	178,406	200,087	200,218	178,608
	<u>414,904</u>	<u>415,521</u>	<u>408,794</u>	<u>388,053</u>
Gross Margin	1,963,458	1,905,494	1,826,331	1,694,149
<b>Expenses</b>				
Research and development	864,966	725,734	768,773	775,750
Selling and marketing	1,164,364	1,179,159	1,203,999	1,103,460
General and administrative	652,978	552,121	495,794	470,221
	<u>2,682,308</u>	<u>2,457,014</u>	<u>2,468,566</u>	<u>2,349,431</u>
Loss from operations	(718,850)	(551,520)	(642,235)	(655,282)
Foreign exchange gain (loss)	47,697	15,906	13,774	(115,094)
Interest and accretion	(84,130)	(43,401)	(39,554)	(34,618)
Change in fair value of derivative liability	(37,926)	28,118	(3,169)	(17,080)
Net loss	<u>(793,209)</u>	<u>(550,897)</u>	<u>(671,184)</u>	<u>(822,074)</u>
<b>Share-based compensation included in accounts:</b>				
Cost of revenue	2,484	147	290	905
Research and development	40,655	1,362	14,334	19,631
Selling and marketing	114,492	(27,945)	28,362	38,590
General and administrative	61,287	80,471	41,896	63,372
	<u>218,918</u>	<u>54,035</u>	<u>84,882</u>	<u>122,498</u>
Weighted average number of shares outstanding, basic and diluted	90,489,865	90,421,333	89,350,391	89,023,423
Net loss per common share, basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

The financial data in the preceding tables were prepared in accordance with IFRS and is presented in U.S. Dollars using exchange rates as follows:

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Average exchange rate in the period	0.7867	0.7984	0.7437	0.7555	0.7496	0.7663	0.7762	0.7290

The average exchange rate was used to determine each of the line items in the Statement of Net loss.

## ADDITIONAL GAAP AND NON-GAAP MEASURES

This MD&A makes reference to certain Additional GAAP and Non-GAAP financial measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use Loss from Operations as an Additional GAAP Measure and we use Non-GAAP financial measures, including Non-GAAP Loss from Operations and Non-GAAP Net Loss, to provide investors with supplemental measures of our operating performance and to highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures.



## Loss from Operations

The Company uses “Loss from Operations” as an additional GAAP financial measure within the financial statements and MD&A but it is not a defined term under IFRS to assess performance. Management believes that this measure provides useful supplemental information to investors and is computed on a consistent basis for each reporting period.

Loss from operations is calculated as total revenues less total operating expenses derived from the Consolidated Statements of Comprehensive Loss. It is used by management to analyze operating performance but it is not intended to represent an alternative to net earnings or other measures of financial performance in accordance with IFRS.

## Non-GAAP Loss from Operations

The Company uses “Non-GAAP Loss from Operations” as a non-GAAP financial measure within the MD&A but it is not a defined term under IFRS to assess performance. Non-GAAP Loss from Operations is calculated as follows:

Non-GAAP Loss from Operations	Three months ended		
	September 30, 2018	June 30, 2018	September 30, 2017
GAAP Loss from Operations	(510,975)	(627,069)	(820,856)
Add back:			
Share based compensation	87,742	45,567	132,013
	<u>(423,233)</u>	<u>(581,502)</u>	<u>(688,843)</u>

  

Non-GAAP Loss from Operations	Nine months ended	
	September 30, 2018	September 30, 2017
GAAP Loss from Operations	(1,914,745)	(2,293,627)
Add back:		
Share based compensation	277,181	411,467
	<u>(1,637,564)</u>	<u>(1,882,160)</u>

Management use this information to measure operating results in relation to available working capital and cash and believes that this measure provides useful supplemental information to investors and is computed on a consistent basis for each reporting period. We believe that securities analysts, investors and other interested parties frequently use Non-GAAP measures in the evaluation of issuers.

## Non-GAAP Net Loss

The Company uses “Non-GAAP Net Loss” as a non-GAAP financial measure within the MD&A but it is not a defined term under IFRS to assess performance. Non-GAAP Loss from Operations is calculated as follows:

Non-GAAP Net Loss	September 30,	June 30,	September 30,
	2018	2018	2017
GAAP Net Loss	(642,066)	(673,814)	(1,038,421)
Add back:			
Share based compensation	87,742	45,567	132,013
Accretion on long-term debt	38,143	35,576	55,469
Change in fair value of derivative	(13,894)	7,501	22,165
	<u>(530,075)</u>	<u>(585,170)</u>	<u>(828,774)</u>

  

Non-GAAP Net Loss	Nine months ended	
	September 30,	September 30,
	2018	2017
GAAP Net Loss	(2,091,043)	(2,804,386)
Add back:		
Share based compensation	277,181	411,467
Accretion on long-term debt	107,238	120,787
Change in fair value of derivative	1,214	73,830
	<u>(1,705,410)</u>	<u>(2,198,302)</u>

Management use this information to measure financial results in relation to available working capital and cash and believes that this measure provides useful supplemental information to investors and is computed on a consistent basis for each reporting period. We believe that securities analysts, investors and other interested parties frequently use Non-GAAP measures in the evaluation of issuers.

Additional information relating to the Company may be found at [www.SEDAR.com](http://www.SEDAR.com).