

Condensed Interim Consolidated Financial Statements of

# **ProntoForms Corporation**

For the three months ended March 31, 2020 and 2019

*(in US dollars)*

*(Unaudited)*

## **“Notice to Reader”**

The accompanying condensed unaudited interim consolidated financial statements of ProntoForms Corporation for the three months ended March 31, 2020 and 2019 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Dated: May 6, 2020

*“David Croucher”*

David Croucher  
Chief Financial Officer

*“Alvaro Pombo”*

Alvaro Pombo  
Chief Executive Officer

# **ProntoForms Corporation**

## **Condensed Interim Consolidated Financial Statements**

For the three months ended March 31, 2020 and 2019

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# ProntoForms Corporation

Condensed Interim Consolidated Statements of loss and comprehensive loss

For the three months ended March 31, 2020 and 2019

(in United States dollars)

	Notes	Three months ended March 31,	
		2020	2019
		\$	\$
<b>Revenue</b>			
Recurring revenue		3,941,955	3,158,951
Professional and other services		300,759	358,234
		<b>4,242,714</b>	<b>3,517,185</b>
<b>Cost of Revenue</b>			
Recurring revenue		321,800	361,439
Professional and other services		297,971	290,754
		<b>619,771</b>	<b>652,193</b>
Gross Margin		<b>3,622,943</b>	<b>2,864,992</b>
<b>Expenses</b>			
Research and development	4	1,181,367	1,040,087
Selling and marketing		1,866,069	1,542,823
General and administrative		813,461	680,419
		<b>3,860,897</b>	<b>3,263,329</b>
Loss from operations		<b>(237,954)</b>	<b>(398,337)</b>
Foreign exchange gain (loss)		166,917	(36,027)
Interest and accretion		(96,325)	(89,043)
Change in fair value of derivative liability	6	(583)	(9,527)
Net loss and comprehensive loss		<b>(167,945)</b>	<b>(532,934)</b>
Net loss and comprehensive loss per common share basic and diluted	9	<b>(0.00)</b>	<b>(0.00)</b>
Weighted average number of common shares basic and diluted	9	<b>117,427,901</b>	<b>107,961,594</b>
<b>Share-based compensation included in accounts:</b>			
Cost of revenue		21,454	12,725
Research and development		27,591	18,606
Selling and marketing		40,888	39,450
General and administrative		58,266	40,730
		<b>148,199</b>	<b>111,511</b>

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

# ProntoForms Corporation

## Condensed Interim Consolidated Statements of financial position

as at March 31, 2020 and December 31, 2019

(in United States dollars)

	Notes	March 31, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		6,170,595	5,700,003
Accounts receivable		1,745,304	2,538,530
Investment tax credits receivable	4	74,693	185,213
Unbilled receivables		216,620	197,264
Related party loan receivable	11	75,742	82,694
Prepaid expenses and other receivables		1,139,343	1,031,390
		<b>9,422,297</b>	9,735,094
Property, plant and equipment		453,846	481,242
Right-of-use asset	5	848,742	912,399
		<b>10,724,885</b>	11,128,735
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		2,260,648	2,493,913
Deferred revenue		3,757,611	3,562,816
Derivative liability - current portion	6	64,455	65,041
Lease obligation - current portion	7	228,746	246,517
		<b>6,311,460</b>	6,368,287
Long-term debt	6	2,530,429	2,717,146
Lease obligations	7	624,311	745,599
Derivative liability	6	36,052	61,524
		<b>9,502,252</b>	9,892,556
<b>Shareholders' equity</b>			
Share capital	8	25,078,817	25,069,032
Contributed surplus		864,907	864,907
Share-based payment reserve		3,490,574	3,345,960
Warrant reserve		692,960	692,960
Deficit		(29,089,060)	(28,921,115)
Accumulated other comprehensive income		184,435	184,435
		<b>1,222,633</b>	1,236,179
		<b>10,724,885</b>	11,128,735

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

# ProntoForms Corporation

## Condensed Interim Consolidated Statements of cash flows

For the three months ended March 31, 2020 and 2019

(in United States dollars)

	Notes	Three months ended March 31,	
		2020	2019
		\$	\$
<b>Operating activities</b>			
Net loss		(167,945)	(532,934)
Items not affecting cash			
Share-based compensation		148,199	111,511
Accretion on long-term debt		44,620	38,315
Accretion on lease obligations		12,456	16,218
Change in fair value of derivative liability	6	583	9,527
Amortization of property, plant and equipment		40,300	24,215
Amortization of right-of-use asset	5	63,657	67,401
Unrealized foreign exchange (gains) losses		(211,682)	62,837
Lease interest paid	7	(12,456)	(16,218)
Changes in non-cash operating working capital items	13	744,919	958,084
		<b>662,651</b>	<b>738,956</b>
<b>Financing activities</b>			
Payment of lease obligations	7	(59,750)	(59,657)
Settlement of derivative liability	6	(16,617)	-
Proceeds from the exercise of warrants		-	35,795
Proceeds from the exercise of options	8	6,200	27,688
		<b>(70,167)</b>	<b>3,826</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(12,904)	(23,427)
Effect of exchange rate changes on cash		(108,988)	6,695
Net cash inflow		<b>470,592</b>	<b>726,050</b>
Cash and cash equivalents, beginning of year		<b>5,700,003</b>	<b>3,325,241</b>
<b>Cash and cash equivalents, end of year</b>		<b>6,170,595</b>	<b>4,051,291</b>

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

## ProntoForms Corporation

### Condensed Interim Consolidated Statements of changes in shareholders' equity

For the three months ended March 31, 2020 and 2019

(in United States dollars)

	Share capital Number	Amount \$	Contributed Surplus \$	Share-based payment reserve \$	Accumulated				Shareholders' equity \$
					Warrant reserve \$	Comprehensive Income \$	Other Income \$	Deficit \$	
Balance at December 31, 2018	111,029,063	20,912,276	801,888	3,431,280	1,263,336	184,435	(26,655,637)	(62,422)	
Share-based compensation	-	-	-	111,511	-	-	-	111,511	
Net loss	-	-	-	-	-	-	(532,934)	(532,934)	
Issuance of common shares on exercise of warrants	100,000	44,060	-	-	(8,265)	-	-	35,795	
Issuance of common shares on exercise of options	107,500	49,631	-	(21,943)	-	-	-	27,688	
Balance at March 31, 2019	111,236,563	21,005,967	801,888	3,520,848	1,255,071	184,435	(27,188,571)	(420,362)	
Balance at December 31, 2019	120,074,998	25,069,032	864,907	3,345,960	692,960	184,435	(28,921,115)	1,236,179	
Share-based compensation	-	-	-	148,199	-	-	-	148,199	
Net loss	-	-	-	-	-	-	(167,945)	(167,945)	
Issuance of common shares on exercise of options	24,000	9,765	-	(3,585)	-	-	-	6,200	
<b>Balance at March 31, 2020</b>	<b>120,098,998</b>	<b>25,078,817</b>	<b>864,907</b>	<b>3,490,574</b>	<b>692,960</b>	<b>184,435</b>	<b>(29,089,060)</b>	<b>1,222,633</b>	

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

# ProntoForms Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

For the three month ended March 31, 2020 and 2019

(Unaudited in United States dollars)

### 1. Description of business

ProntoForms Corporation ("ProntoForms" or the "Company") researches, develops, and markets mobile business solutions which help customers quickly and flexibly automate field sales, field service and field data collection business processes. The Company was incorporated and is domiciled in Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange Venture Exchange ("TSXV") under the symbol "PFM" and has its registered address at 250-2500 Solandt Road, Ottawa, Ontario.

### 2. Basis of preparation

#### *(a) Statement of compliance*

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") using the accounting policies disclosed below.

The policies applied in these condensed interim consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at December 31, 2019.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2019 annual consolidated financial statements. The policies set out below were consistently applied to all the periods presented.

These condensed interim consolidated financial statements were approved and authorised for issue by the Board of Directors on May 6, 2020.

#### *(a) Basis of measurement and going concern assumption*

These condensed interim consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The consolidated statements of loss and comprehensive loss are presented using the function classification for expenses. Derivative liabilities are measured at fair value after initial recognition.

The preparation of these condensed interim consolidated financial statements in accordance with IFRS contemplates the continuation of the Company as a going concern. As at March 31, 2020, the Company had not yet achieved profitable operations, had a net loss for the period and has an accumulated deficit, however, the Company believes that its current cash and cash equivalents, combined with certain sales-related efforts and financing initiatives, will provide sufficient cash flow for it to continue as a going concern in its present form.

#### *(b) Basis of consolidation*

The condensed interim consolidated financial statements include the accounts of ProntoForms Corporation and its wholly-owned subsidiaries ProntoForms Inc. (Canadian company), TrueContext Limited (U.K. company), and TrueContext Incorporated (U.S. company). Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All inter-company transactions, balances, profits and expenses have been eliminated.

### 3. Significant accounting policies

The significant accounting policies used in preparing these condensed interim consolidated financial statements are unchanged from those disclosed in the Company's 2019 annual consolidated financial statements and have been applied consistently to all periods presented in these condensed interim consolidated financial statements.



# ProntoForms Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

For the three month ended March 31, 2020 and 2019

(Unaudited in United States dollars)

#### 4. Investment tax credits and other government assistance

During the three months ended March 31, 2020, the Company recorded refundable investment tax credits of \$7,314 (2019 – \$14,966) as a reduction to research and development expenses. The Company claims research and development deductions and related investment tax credits for income tax purposes based on management's interpretation of the applicable legislation in the Income Tax Act of Canada. These claims are subject to audit by the Canada Revenue Agency.

During the three months ended March 31, 2020, the Company recorded government assistance of \$217,250 related to provincial and federal employment assistant programs (2019 – \$26,089) against research and development expenses.

#### 5. Right-of-use assets

	March 31, 2020 \$
<b>Office right-of-use asset</b>	
Balance, December 31, 2019	912,399
Amortization	(63,657)
Balance, March 31, 2020	<u>848,742</u>

#### 6. Long-term debt and derivative liability

	March 31, 2020 \$	December 31, 2019 \$
Business Development Bank of Canada 2016 Loan, interest at 7% per annum, compounded annually	3,073,200	3,073,200
Debt issue costs	(57,592)	(57,592)
Derivative liability	(239,289)	(239,289)
Warrants	(495,684)	(495,684)
Accretion of discount	482,888	438,268
Translation adjustment	(233,094)	(1,757)
Long-term debt	<u>2,530,429</u>	<u>2,717,146</u>

In 2016, the Company entered into a financing agreement with Business Development Bank of Canada ("BDCC"), for a \$3,073,200 (\$4 million CAD) five-year secured term credit facility bearing interest at a fixed rate of 7% per year (the "2016 Loan"). The credit facility provided for the disbursement of funds in stages subject to the Company meeting certain conditions. The disbursements were received as follows:

# ProntoForms Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

For the three month ended March 31, 2020 and 2019

(Unaudited in United States dollars)

### 6. Long-term debt and derivative liability (continued)

- \$1,524,800 (\$2 million CAD) was received in September 2016,
- \$751,300 (\$1 million CAD) was received in March 2017 and
- \$797,100 (\$1 million CAD) was settled against the remaining 2012 Loan obligation in November 2017.

In addition, pursuant to the financing agreement, BDCC received warrants entitling it to acquire up to 4,350,000 common shares of the Company at a price per share of CAD \$0.45 that expire on September 15, 2021.

The value of the 4,350,000 warrants was estimated using the following variables: share price of between \$0.33 CAD - \$0.38 CAD, expected life of between three years ten months and five years, nil dividends, volatility of between 81% - 88% and a risk-free interest rate of 0.65%. The \$692,959 value of the warrants was recorded as an increase to warrant reserve and a \$197,275 reduction of the derivative liability relating to the bonus on sale associated with the 2012 Loan and a \$495,684 discount on the 2016 Loan.

Furthermore, annual recurring revenue growth ("ARRG") of less than 30% will result in an increase of up to 1.25% in the overall interest rate. The ARRG is calculated based on the audited year-end financial statements beginning with the year ended December 31, 2016. The additional increase in interest if ARRG is less than 30% represents an embedded derivative and accordingly, the 2016 Loan was bifurcated between the debt, the derivative and warrants. The debt component will be accreted up to its fair value over the term of the loan and the derivative is revalued each reporting period. The derivative for the potential increase in interest payments was valued based on the present value of management's best estimate of future annual recurring revenue, using an appropriate discount rate. The fair value for the derivative liability recorded at the time the proceeds were obtained totaled \$239,289. Any changes in fair value are recorded through the statement of loss and comprehensive loss. The overall interest rate on the 2016 Loan has increased by 1.25% to 8.25% in 2018 and another 0.75% in 2019 as a result of the ARRG growth in 2018 being less than 30%.

The following table sets out the derivative liability as at March 31, 2020 and December 31, 2019.

	March 31, 2020 \$	December 31, 2019 \$
Derivative portion of 2016 Loan proceeds	239,289	239,289
Partial settlement of 2016 derivative	(91,938)	(75,321)
Cumulative fair value adjustment of 2016 loan	(33,129)	(33,712)
Foreign exchange effect	(13,712)	(3,691)
	<b>100,510</b>	126,565
Less current portion:	(64,458)	(65,041)
	<b>36,052</b>	61,524

The change in fair value of the derivatives for the three months ended March 31, 2020 was a loss of \$583 (2019 – loss of \$9,527).

# ProntoForms Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

For the three month ended March 31, 2020 and 2019

(Unaudited in United States dollars)

### 7. Lease obligations

The Company's leases are for office space denominated in Canadian dollars but presented in United States dollars. Maturities of lease liabilities as at March 31, 2020 were as follows:

<b>Fiscal Year</b>	<b>Operating leases</b>
Remainder of 2020	201,709
2021	276,949
2022	288,155
2023	168,090
<b>Total future minimum payments</b>	<b>934,903</b>
Imputed interest	(81,846)
<b>Total lease liabilities</b>	<b>853,057</b>
Less: current portion	(228,746)
Non-current portion	624,311

Interest expense on lease obligations for the three months ended March 31, 2020 was \$12,456 (2019: \$16,218). Variable lease payments for operating costs not included in the measurement of lease obligations for the three months ended March 31, 2020 was \$71,049 (2019: \$69,744). Expenses relating to short-term leases and leases of low value assets for the three months ended March 31, 2020 was \$4,367 (2019: \$5,601). Total cash outflow for leases was \$72,206 (2019: \$75,875), including \$59,750 (2019: \$59,657) of principal payments on lease obligations.

### 8. Share capital

During the three months ended March 31, 2020, 24,000 common shares were issued upon the exercise of options, for proceeds of \$6,200.

During the three months ended March 31, 2019, 100,000 common shares were issued upon the exercise of warrants and 107,500 common shares were issued upon the exercise of options, for proceeds of \$35,795 and \$27,688 respectively.

### 9. Loss per share

Net loss per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the period. The common shares pledged as security for loans receivable are excluded from the calculation of weighted average number of common shares outstanding.

Diluted loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have reduced the loss per share (anti-dilutive) for the periods presented are as follows:

# ProntoForms Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

For the three month ended March 31, 2020 and 2019

(Unaudited in United States dollars)

### 9. Loss per share (continued)

	March 31, 2020	Average exercise price (CAD) \$	March 31, 2019	Average exercise price (CAD) \$
Options	14,202,808	0.40	13,262,210	0.33
Warrants	4,350,000	0.45	11,847,890	0.47
	18,552,808	0.41	25,110,100	0.40

### 10. Segmented information

The Company operates in one operating segment being mobile computer software solutions. This segment engages in business activities from which it earns license, support and professional services revenues, and incurs expenses.

Revenues from external customers are attributed to geographic areas based on the location of the contracting customers. The following table sets forth external revenue by geographic areas:

	Three months ended	
	March 31, 2020 \$	March 31, 2019 \$
United States	2,871,001	2,377,718
Canada	611,573	507,824
Europe	296,335	226,826
Latin America	187,127	226,911
Other	276,678	177,906
	4,242,714	3,517,185

For the three months ended March 31, 2020, the Company had one customer that individually accounted for 14% (2019: 17%) of revenue and 12% (2019 - 29%) of accounts receivable at March 31, 2020.

All property, plant and equipment and right-of-use assets are located in Canada.

### 11. Related party transactions and commitments

The Company leases office premises from a company controlled by the Chairman of the Board. Included in the Balance Sheet are \$848,742 of right-of-use assets and \$853,057 of lease obligations. Operating expenses under the related party lease plus commitments for other office leases and other, have the following minimum annual payments:

# ProntoForms Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

For the three month ended March 31, 2020 and 2019

(Unaudited in United States dollars)

### 11. Related party transactions and commitments (continued)

	Related party commitments	Other commitments	\$
2020 (April through December)	197,098	4,973	202,071
2021	262,797	-	262,797
2022	262,797	-	262,797
2023	153,298	-	153,298
	875,990	4,973	880,963

Loans totalling \$378,818 (\$537,407 CAD) have been issued to the CEO to purchase common shares. The loans are non-interest bearing and repayable on demand.

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 March 31, 2020 was \$1,373,142 (\$1,947,996 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 \$75,742 (\$107,451 CAD) Related Party Loan Receivable for related tax remittances is treated as a current receivable.

### 12. Financial instruments

The carrying values of cash and cash equivalents, accounts receivable, unbilled receivables, related party loan, accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. Long-term debt has a fair value of \$2,551,605 (carrying value of \$2,530,429) which is based on the present value of future interest and principal payments, using a discount rate of 12%.

#### *Fair value hierarchy*

Financial instruments recorded at fair value on the condensed interim consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# ProntoForms Corporation

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three month ended March 31, 2020 and 2019

(Unaudited in United States dollars)

#### 12. Financial instruments (continued)

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents and the fair value of underlying common shares described in Note 11 are classified as a Level 1 financial instrument and the derivative liability is classified as a Level 3 financial instrument (see Note 6 for further details related to the derivative liability). All other financial instruments are classified as Level 2. The fair value of the long-term debt is also classified as a Level 3 disclosure. During the period ended March 31, 2020, there were no transfers of amounts between Level 1, Level 2 and Level 3.

#### 13. Changes in non-cash operating working capital items

	March 31, 2020 \$	March 31, 2019 \$
Accounts receivable	793,226	173,764
Investment tax credits receivable	110,520	29,122
Unbilled receivables	(19,356)	(7,503)
Related party loan receivable	6,952	(1,644)
Prepaid expenses and other receivables	(107,953)	(178,520)
Accounts payable and accrued liabilities	(233,265)	417,241
Deferred revenue	194,795	525,624
	<b>744,919</b>	<b>958,084</b>