

Condensed Interim Consolidated Financial Statements of

# **ProntoForms Corporation**

For the three and six months ended June 30, 2020 and 2019

*(in US dollars)*

*(Unaudited)*

## **“Notice to Reader”**

The accompanying condensed unaudited interim consolidated financial statements of ProntoForms Corporation for the three and six months ended June 30, 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: August 19, 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 and six months ended June 30, 2020 and 2019

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# ProntoForms Corporation

Condensed interim consolidated statements of net and comprehensive income (loss)

For the three and six month ended June 30, 2020 and 2019

(in United States dollars)

## ProntoForms Corporation

Condensed Interim Consolidated Statements of income (loss) and comprehensive income (loss)

For the three and six months ended June 30, 2020 and 2019

(in United States dollars)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
		\$	\$	\$	\$
<b>Revenue</b>					
Recurring revenue		3,890,920	3,304,579	7,832,875	6,463,530
Professional and other services		271,424	371,688	572,183	729,922
		<b>4,162,344</b>	<b>3,676,267</b>	<b>8,405,058</b>	<b>7,193,452</b>
<b>Cost of Revenue</b>					
Recurring revenue		275,865	339,635	597,665	701,074
Professional and other services		216,129	264,038	514,100	554,792
		<b>491,994</b>	<b>603,673</b>	<b>1,111,765</b>	<b>1,255,866</b>
Gross Margin		<b>3,670,350</b>	<b>3,072,594</b>	<b>7,293,293</b>	<b>5,937,586</b>
<b>Expenses</b>					
Research and development	4	1,161,873	1,245,161	2,343,240	2,285,248
Selling and marketing	4	1,545,168	1,561,004	3,411,237	3,103,827
General and administrative	4	615,590	683,665	1,429,051	1,364,084
		<b>3,322,631</b>	<b>3,489,830</b>	<b>7,183,528</b>	<b>6,753,159</b>
Income (loss) from operations		<b>347,719</b>	<b>(417,236)</b>	<b>109,765</b>	<b>(815,573)</b>
Foreign exchange (loss) gain		(43,813)	(17,118)	123,104	(53,145)
Interest and accretion		(95,232)	(94,808)	(191,557)	(183,851)
Change in fair value of derivative liability	6	(954)	(880)	(1,537)	(10,407)
Net and comprehensive income (loss)		<b>207,720</b>	<b>(530,042)</b>	<b>39,775</b>	<b>(1,062,976)</b>
Net comprehensive loss per common share basic and diluted	9	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(0.01)</b>
Weighted average number of common shares basic and diluted	9	<b>117,455,093</b>	<b>109,926,030</b>	<b>117,437,968</b>	<b>109,165,685</b>
<b>Share-based compensation included in accounts:</b>					
Cost of revenue		8,243	9,616	29,697	22,341
Research and development		24,327	13,956	51,918	32,562
Selling and marketing		27,937	28,674	68,825	68,124
General and administrative		37,563	30,074	95,829	70,804
		<b>98,070</b>	<b>82,320</b>	<b>246,269</b>	<b>193,831</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 June 30, 2020 and December 31, 2019

(in United States dollars)

	Notes	June 30, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		5,523,551	5,700,003
Accounts receivable		2,202,519	2,538,530
Investment tax credits receivable	4	85,093	185,213
Unbilled receivables		188,311	197,264
Related party loan receivable	11	78,847	82,694
Prepaid expenses and other receivables		1,442,100	1,031,390
		<b>9,520,421</b>	<b>9,735,094</b>
Property, plant and equipment		442,290	481,242
Right-of-use asset	5	785,085	912,399
		<b>10,747,796</b>	<b>11,128,735</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		2,329,644	2,493,913
Deferred revenue		3,284,111	3,562,816
Derivative liability - current portion	6	72,094	65,041
Lease obligation - current portion	7	241,334	246,517
		<b>5,927,183</b>	<b>6,368,287</b>
Long-term debt	6	2,681,075	2,717,146
Lease obligation	7	588,358	745,599
Derivative liability	6	16,872	61,524
		<b>9,213,488</b>	<b>9,892,556</b>
<b>Shareholders' equity</b>			
Share capital	8	25,089,907	25,069,032
Contributed surplus		864,907	864,907
Share-based payment reserve		3,583,439	3,345,960
Warrant reserve		692,960	692,960
Deficit		(28,881,340)	(28,921,115)
Accumulated other comprehensive income		184,435	184,435
		<b>1,534,308</b>	<b>1,236,179</b>
		<b>10,747,796</b>	<b>11,128,735</b>

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 six months ended June 30, 2020 and 2019

(in United States dollars)

	Notes	Six months ended June 30,	
		2020	2019
		\$	\$
<b>Operating activities</b>			
Net income (loss)		39,775	(1,062,976)
Items not affecting cash			
Share-based compensation		246,269	193,831
Accretion on long-term debt		90,913	79,332
Accretion on lease obligations		23,984	31,573
Change in fair value of derivative liability	6	1,537	10,407
Amortization of property, plant and equipment		80,371	56,959
Amortization of right-of-use asset	5	127,314	134,802
Unrealized foreign exchange (gains) losses		(133,599)	91,878
Lease interest paid	7	(23,984)	(31,573)
Changes in non-cash operating working capital items	13	(408,600)	627,614
		43,980	131,847
<b>Financing activities</b>			
Payment of lease obligations	7	(116,808)	(119,880)
Partial settlement of derivative liability	6	(33,028)	(34,393)
Proceeds from the exercise of warrants		-	2,433,948
Proceeds from the exercise of options	8	12,085	41,335
		(137,751)	2,321,010
<b>Investing activities</b>			
Purchase of property, plant and equipment		(41,419)	(126,057)
Effect of exchange rate changes on cash		(41,262)	93,396
Net cash (outflow) inflow		(176,452)	2,420,196
Cash and cash equivalents, beginning of year		5,700,003	3,325,241
<b>Cash and cash equivalents, end of year</b>		<b>5,523,551</b>	<b>5,745,437</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 six months ended June 30, 2020 and 2019

(in United States dollars)

	Share capital Number	Amount \$	Contributed Surplus \$	Share-based payment reserve \$	Warrant reserve \$	Accumulated			Shareholders' equity \$
						Comprehensive Income \$	Other Income \$	Deficit \$	
Balance at December 31, 2018	111,029,963	20,912,276	801,888	3,431,280	1,263,336	184,435	(26,655,637)	(62,422)	
Share-based compensation	-	-	-	193,831	-	-	-	193,831	
Net loss	-	-	-	-	-	-	(1,062,976)	(1,062,976)	
Issuance of common shares on exercise of warrants	6,758,399	2,941,306	-	-	(507,358)	-	-	2,433,948	
Expiry of warrants	-	-	63,020	-	(63,020)	-	-	-	
Issuance of common shares on exercise of options	159,385	73,759	-	(32,424)	-	-	-	41,335	
Balance at June 30, 2019	117,947,747	23,927,341	864,908	3,592,687	692,958	184,435	(27,718,613)	1,543,716	
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	-	-	-	246,269	-	-	-	246,269	
Net income	-	-	-	-	-	-	39,775	39,775	
Issuance of common shares on exercise of options	48,583	20,875	-	(8,790)	-	-	-	12,085	
<b>Balance at June 30, 2020</b>	<b>120,123,581</b>	<b>25,089,907</b>	<b>864,907</b>	<b>3,583,439</b>	<b>692,960</b>	<b>184,435</b>	<b>(28,881,340)</b>	<b>1,534,308</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 and six months ended June 30, 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 August 19, 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 income (loss) and comprehensive income (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. The Company had net income for the three months ended June 30, 2020, which was primarily due to the Government Funding received, but has not yet achieved sustained profitable operations 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 and six months ended June 30, 2020 and 2019

(Unaudited in United States dollars)

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

During the three and six months ended June 30, 2020, the Company recorded refundable investment tax credits of \$7,336 and \$14,560 (2019 – \$9,175 and \$24,212) 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 and six months ended June 30, 2020, the Company recorded government assistance of \$272,090 and \$489,340 (2019: \$450 and \$26,539) related to provincial and federal employment assistant programs against research and development expenses.

During the three months ended June 30, 2020, the Company recorded government assistance of \$635,082 (2019: \$Nil) related to the Innovative Assistance Program (IAP). The IAP provides assistance to small and medium-size enterprises in the form of a salary subsidy for up to 12 weeks from April 1, 2020 to June 23, 2020. The total IAP amounts received have been recorded as follows:

Cost of Revenue	
Recurring revenue	61,976
Professional and other services	92,238
Research and development	49,521
Selling and marketing	334,552
General and administrative	96,795
	<u>635,082</u>

#### 5. Right-of-use asset

	June 30, 2020 \$	December 31, 2019 \$
<b>Office right-of-use asset</b>		
Balance, January 1	912,399	-
Adoption of IFRS 16	-	1,196,989
Amortization	(127,314)	(269,800)
Write-off to lease obligation on cancellation of lease	-	(14,790)
Balance, end of period	<u>785,085</u>	<u>912,399</u>

# ProntoForms Corporation

## Notes to the condensed interim consolidated financial statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited in United States dollars)

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

	June 30, 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	529,181	438,268
Translation adjustment	(128,741)	(1,757)
Long-term debt	<b>2,681,075</b>	<b>2,717,146</b>

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").

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. At the discretion of BDCC they have the right to increase the interest on the loan up to a maximum of 1.25% per year, if the Company does not achieve 30% ARRG. The interest rate was increased to 9% in October 2019 and there have been no further increases.

# ProntoForms Corporation

## Notes to the condensed interim consolidated financial statements

### For the three and six months ended June 30, 2020 and 2019

(Unaudited in United States dollars)

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

The following table sets out the derivative liability as at June 30, 2020 and December 31, 2019.

	June 30, 2020 \$	December 31, 2019 \$
Derivative portion of 2016 Loan proceeds	239,289	239,289
Partial settlement of 2016 derivative	(108,349)	(75,321)
Cumulative fair value adjustment of 2016 loan	(32,175)	(33,712)
Foreign exchange effect	(9,799)	(3,691)
	<b>88,966</b>	126,565
Less current portion:	(72,094)	(65,041)
	<b>16,872</b>	61,524

The change in fair value of the derivatives for the three and six months ended June 30, 2020 was a loss of \$954 and \$1,537 (2019 – loss of \$880 and \$10,407).

#### 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 June 30, 2020 were as follows:

Fiscal Year	Operating leases
Remainder of 2020	139,986
2021	288,304
2022	299,969
2023	174,982
<b>Total future minimum payments</b>	<b>903,241</b>
Imputed interest	(73,549)
Total lease liabilities	829,692
Less: current portion	(241,334)
Non-current portion	588,358

Interest expense on lease obligations for the three and six months ended June 30, 2020 was \$11,528 and \$23,984 (2019: \$15,355 and \$31,573). Variable lease payments for operating costs not included in the measurement of lease obligations for the three and six months ended June 30, 2020 was \$67,488 and \$138,538 (2019: \$67,366 and \$133,956). Expenses relating to short-term leases and leases of low value assets for the three months and six ended June 30, 2020 was \$ 4,546 and \$8,913 (2019: \$5,719 and \$11,320). Total cash outflow for leases was \$140,792 (2019: \$151,453), including \$116,808 (2019: \$119,880) of principal payments on lease obligations.

# ProntoForms Corporation

## Notes to the condensed interim consolidated financial statements

### For the three and six months ended June 30, 2020 and 2019

(Unaudited in United States dollars)

#### 8. Share capital

During the six months ended June 30, 2020, 48,583 common shares were issued upon the exercise of options, for proceeds of \$12,085.

During the six months ended June 30, 2019, 6,758,399 common shares were issued upon the exercise of warrants and 159,385 common shares were issued upon the exercise of options, for proceeds of \$2,433,948 and \$41,335 respectively. 839,491 warrants expired during the six months ended June 30, 2019.

#### 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:

	June 30, 2020	Average exercise price (CAD) \$	June 30, 2019	Average exercise price (CAD) \$
Options	14,006,751	0.40	13,271,159	0.35
Warrants	4,350,000	0.45	4,350,000	0.45
	18,356,751	0.41	17,621,159	0.37

# ProntoForms Corporation

## Notes to the condensed interim consolidated financial statements

### For the three and six months ended June 30, 2020 and 2019

(Unaudited in United States dollars)

#### 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		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	\$	\$	\$	\$
United States	2,936,970	2,526,124	5,807,971	4,903,842
Canada	539,392	502,769	1,150,965	1,010,593
Europe	300,944	216,714	597,279	443,540
Latin America	146,888	226,455	334,015	453,366
Other	238,150	204,205	514,828	382,111
	4,162,344	3,676,267	8,405,058	7,193,452

For the three and six months ended June 30, 2020, the Company had one customer that individually accounted for 14% and 14% (2019: 16% and 16%) of revenue and 28% (June 30, 2019: 19%) of accounts receivable at June 30, 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 \$785,085 of right-of-use assets and \$829,692 of lease obligations. In addition to the minimum lease payments (Refer Note 7) the Company has the following variable lease payments under the related party lease and other commitments:

	Related party commitments	Other commitments	\$
2020 (July through December)	136,786	631	137,417
2021	273,572	-	273,572
2022	273,572	-	273,572
2023	159,584	-	159,584
	843,514	631	844,145

Loans totalling \$394,349 (\$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 June 30, 2020 was \$1,370,696 (\$1,867,942 CAD).

# ProntoForms Corporation

## Notes to the condensed interim consolidated financial statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited in United States dollars)

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

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 \$78,847 (\$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 \$2,785,845 (carrying value of \$2,681,075) 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).

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 three and six month periods ended June 30, 2020, there were no transfers of amounts between Level 1, Level 2 and Level 3.

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

	June 30, 2020 \$	June 30, 2019 \$
Accounts receivable	336,011	303,711
Investment tax credits receivable	100,120	36,710
Unbilled receivables	8,953	(86,273)
Related party loan receivable	-	(3,342)
Prepaid expenses and other receivables	(410,710)	(502,940)
Accounts payable and accrued liabilities	(164,269)	352,764
Deferred revenue	(278,705)	526,984
	<b>(408,600)</b>	627,614