

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

August 19, 2020

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

## 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 11, 2020 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 six months ended June 30, 2020. 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 six months ended June 30, 2020. 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 enough 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 and the potential impacts of the COVID-19 pandemic on the Company’s business and 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.

On March 12, 2020, Prontoforms took the decision to temporarily close our physical offices and require all staff to work from home. Our staff have responded with enthusiasm and have adapted well to working remotely. Most of our tools are in the cloud and have been operating there for some time and as such, the disruption to sales by COVID-19 was not as significant for us as for some other businesses. Churn earlier in the quarter was mainly related to small and medium business segments and was offset by several enterprise bookings later in the quarter resulting in a net gain in our base. However, sales have continued to be challenging due to operational disruption at our customers. There are still some challenges we face in collaboration, but staff have the tools they need to do their job well. We will continue with our staff working in this remote fashion until such time as we believe, based on the stages of the virus and the advice of government health authorities, that the risk to our staff and customers is reduced sufficiently. At such time, all recommended safety precautions, including physical distancing measures, will be implemented.

We are conducting business with substantial modifications to employee travel, employee work locations and virtualization or cancellations of all sales and marketing events. We have substantially modified interactions with customers and suppliers, among other modifications, including customer purchasing decisions. We may take further actions that alter our business operations as may be required by governments, or that we determine are in the best interest of our employees, customers, partners, suppliers, and shareholders. However, there is no certainty that such measures will be sufficient to mitigate the direct and indirect effects of the virus and our business, financial condition and results of operations could be affected. The degree to which COVID-19 will affect our results and operations will depend on future developments that are highly uncertain and cannot currently be predicted, including, but not limited to, the duration, extent and severity of the COVID-19 pandemic, actions taken to contain the virus, the impact of the pandemic and related restrictions on economic activity and the extent of the impact of these and other factors on our employees, partners, suppliers and customers. COVID-19 has also caused heightened uncertainty in the global economy. If economic growth slows further or if a recession develops, customers may not have the financial means to subscribe for our software and services, negatively impacting our results of operations. Since the impact of COVID-19 is ongoing, the effect of the COVID-19 outbreak and the related impact on the global economy may not be fully reflected in our results of operations until future periods. Further, volatility in the capital markets has been heightened during recent months and such volatility may continue, which may cause declines in the price of our shares.

Please see the Company's MD&A for the year ended December 31, 2019 filed on [www.SEDAR.com](http://www.SEDAR.com) and dated March 11, 2020 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 AND OUTLOOK**

ProntoForms is the global leader in field-focused low-code application platforms ("LCAP") for enterprise. Its solution is used to create apps and forms to collect and analyze field data with smartphones and tablets – either as a standalone solution or a mobile front-end to enterprise systems of record. ProntoForms' 100,000+ subscribers harness the intuitive, secure, and scalable solution to increase productivity, improve quality of service, and mitigate risks.

ProntoForms was one of just 18 companies featured in Gartner's 2019 LCAP Magic Quadrant report. Additionally, it was the only field-focused solution included. Gartner – the world's leading IT research and advisory firm – predicts that by 2024, 75% of large enterprises will use at least four low-code development tools for both IT application development and citizen development initiatives.

We have a broad cross section of customers in diverse industries; however, our prime focus is in heavy manufacturing, energy resources, and utilities. Typically, our initial sale is to the leaders of field or sales operations. In enterprise, we often obtain broader adoption through internal IT channels as they value the platform's security, scalability, and reliability. We are focusing on a replicable expansion approach for 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 also targeting new enterprise sales through partners and resellers. We believe that these partners and resellers often provide easier access to the decision makers in large enterprises, so we have shifted resources and investment to pursue 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 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 investigate LCAP solutions to complement 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 favorable trend supporting our growth.

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 quarterly operating results.

See "Forward Looking Statements" above.

## **RECENT DEVELOPMENTS**

### **2020**

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

### **2019**

During the year ended December 31, 2019, 6,758,399 common shares were issued upon the exercise of warrants for proceeds of \$2,433,948 and 2,286,636 common shares were issued upon the exercise of options for proceeds of \$675,741.

## 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 June 30, 2020, 93% of ARR was denominated in US Dollars.

	2020		2019				2018	
	June 30	March 31	December 31	September 30	June 30	March 31	December 31	September 30
ARR	16,137,336	15,741,756	15,736,428	15,026,100	13,713,778	13,069,975	12,397,120	11,546,322
ARR Growth								
- sequential (QoQ)	2.5%	0%	4.7%	9.6%	4.9%	5.4%	7.4%	5.8%
- comparable (YoY)	17.7%	20.4%	26.9%	30.1%	25.7%	26.4%	27.0%	22.8%
Proportion of Base from								
Customers with > \$100k ARR	38%	37%	36%	35%	30%	28%	26%	24%

We have focused our efforts on Enterprise sales and we use the metric “Proportion of Base from Customers with > \$100k ARR” as an indicator of sales to larger customers and higher penetration within those accounts. Over time, larger customers have constituted a greater share of our revenue and we expect this trend to continue as larger enterprises recognize the value of our product. We caution that this indicator may fluctuate depending on the size of customers added or deleted in the following periods.

An ARR customer is defined as a separate and distinct buying entity, such as a company, an educational or government institution, or a distinct business unit of a large company that has an active contract with us or one of our partners to access our platform.

**PRESENTATION OF FINANCIAL STATEMENTS**  
(in U.S. Dollars)

**Selected Quarterly Financial Information**

**Statement of Operations Data**

	Three months ended		Six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue	\$ 4,162,344	\$ 3,676,267	\$ 8,405,058	\$ 7,193,452
Income (loss) from operations	347,719	(417,236)	109,765	(815,573)
Net income (loss)	207,720	(530,042)	39,775	(1,062,976)
Non-GAAP income (loss) from operations [1]	445,789	(334,916)	356,034	(621,742)
Non-GAAP income (loss) [1]	353,037	(405,824)	378,494	(779,405)
Basic and diluted income (loss) per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)

[1] See Non-GAAP measures below

**DISCUSSION OF OPERATIONS**

**Three months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019**

	Three months ended		Change from Q2 2020 to Q2 2019		Three months ended		Change from Q1 2020 to Q2 2020
	June 30, 2020	June 30, 2019			March 31, 2020		
<b>Revenue</b>							
Recurring revenue	\$ 3,890,920	\$ 3,304,579	586,341	18%	\$ 3,941,955	(51,035)	-1%
Professional and other services	271,424	371,688	(100,264)	-27%	300,759	(29,335)	-10%
	<b>4,162,344</b>	<b>3,676,267</b>	<b>486,077</b>	<b>13%</b>	<b>4,242,714</b>	<b>(80,370)</b>	<b>-2%</b>
<b>Cost of revenue</b>							
Recurring revenue	275,865	339,635	(63,770)	-19%	321,800	(45,935)	-14%
Professional and other services	216,129	264,038	(47,909)	-18%	297,971	(81,842)	-27%
	<b>491,994</b>	<b>603,673</b>	<b>(111,679)</b>	<b>-18%</b>	<b>619,771</b>	<b>(127,777)</b>	<b>-21%</b>
Gross margin	3,670,350 88%	3,072,594 84%	597,756	19%	3,622,943 85%	47,407	1%
<b>Expenses</b>							
Research and development	1,161,873	1,245,161	(83,288)	-7%	1,181,367	(19,494)	-2%
Selling and marketing	1,545,168	1,561,005	(15,837)	-1%	1,866,069	(320,901)	-17%
General and administrative	615,590	683,665	(68,075)	-10%	813,461	(197,871)	-24%
	<b>3,322,631</b>	<b>3,489,831</b>	<b>(167,200)</b>	<b>-5%</b>	<b>3,860,897</b>	<b>(538,266)</b>	<b>-14%</b>
Income (Loss) from operations	347,719	(417,237)	764,956	-183%	(237,954)	585,673	-246%
Foreign exchange (loss) gain	(43,813)	(17,117)	(26,696)	nm	166,918	(210,731)	nm
Interest and accretion	(95,232)	(94,808)	(424)	nm	(96,325)	1,093	nm
Change in fair value of derivative liability	(954)	(880)	(74)	nm	(583)	(371)	nm
Net income (loss)	\$ 207,720	\$ (530,042)	737,762	-139%	\$ (167,944)	375,664	-224%

nm - not considered meaningful

Income from operations (see additional GAAP measures) for the three months ended June 30, 2020 was \$347,719 compared to loss from operations of \$237,954 in the first quarter of 2020 and a loss from operations of \$417,237 for the comparable second quarter of 2019. Non-GAAP income from operations (see non-GAAP measures) for the three months ended June 30, 2020 was \$445,789 up from a loss of \$89,755 in the first quarter of 2020 and up from a loss of \$334,916 for the comparable second quarter of 2019. The decrease in loss from operations and Non-GAAP loss from operations is due to the government assistance received due to COVID-19 in the second quarter of 2020 and the modified approach in operating the Company.

The Company had a net income of \$207,720 for the three months ended June 30, 2020 compared to a net loss of \$530,042 in the second quarter of 2019 and a net loss of \$167,944 for the first quarter of 2020. Non-GAAP net income (see Non-GAAP measures) for the three months ended June 30, 2020 was \$353,087 up from a Non-GAAP net income of \$25,457 in the first quarter of 2020 and up from a Non-GAAP net loss of \$408,824 for the comparable second quarter of 2019. The decrease in net loss and Non-GAAP net loss is due mainly to the government assistance and modified approach in operating the Company mentioned above.

**Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019**  
(in U.S. Dollars)

	<b>Six months ended</b>		<b>Change from 2019 To 2020</b>	
	<b>June 30, 2020</b>	<b>June 30, 2019</b>		
<b>Revenue</b>				
Recurring revenue	\$ 7,832,875	\$ 6,463,530	1,369,345	21%
Professional and other services	572,183	729,922	(157,739)	-22%
	<b>8,405,058</b>	<b>7,193,452</b>	<b>1,211,606</b>	<b>17%</b>
<b>Cost of revenue</b>				
Recurring revenue	597,665	701,074	(103,409)	-15%
Professional and other services	514,100	554,792	(40,692)	-7%
	<b>1,111,765</b>	<b>1,255,866</b>	<b>(144,101)</b>	<b>-11%</b>
Gross margin	<b>7,293,293</b> 87%	5,937,586 83%	1,355,707	23%
<b>Expenses</b>				
Research and development	2,343,240	2,285,248	57,992	3%
Selling and marketing	3,411,237	3,103,827	307,410	10%
General and administrative	1,429,051	1,364,084	64,967	5%
	<b>7,183,528</b>	<b>6,753,159</b>	<b>430,369</b>	<b>6%</b>
Income (loss) from operations	<b>109,765</b>	(815,573)	925,338	-113%
Foreign exchange gain (loss)	<b>123,104</b>	(53,145)	176,249	nm
Interest and accretion	<b>(191,557)</b>	(183,851)	(7,706)	nm
Change in fair value of derivative liability	<b>(1,537)</b>	(10,407)	8,870	nm
Net income (loss)	<b>\$ 39,775</b>	<b>\$ (1,062,976)</b>	<b>1,102,751</b>	<b>-104%</b>

nm - not considered meaningful

Income from operations (see Additional GAAP Measures below) for the six months ended June 30, 2020 was \$109,765 compared to loss from operations of \$815,573 for the comparable six months ended June 30, 2019. Non-GAAP income from operations (see Non-GAAP Measures below) for the six months ended June 30, 2020 was \$356,033 compared to a Non-GAAP loss from operations \$621,742 for the comparable six months ended June 30, 2019. The decrease in net loss and Non-GAAP net loss is due mainly to the government assistance and modified approach in operating the Company mentioned above.

The Company had a net income of \$39,775 for the six months ended June 30, 2020 compared to a net loss of \$1,062,976 for the six months ended June 30, 2019. Non-GAAP net income for the six months ended June 30, 2020 was \$378,494 up from a loss of \$779,405 for the comparable six months ended June 30, 2019.

## 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 customization, software integration and installation. After the initial subscription sale, customers may purchase additional professional services for the development of incremental forms, or integration to other back-office applications.

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	
	June 30, 2020	March 31, 2020	June 30, 2019	Previous 2020 Q1	Comparable 2019 Q2
Revenue					
Recurring	\$ 3,890,920	\$ 3,941,955	\$ 3,304,579	-1%	18%
Professional services	271,424	300,759	371,688	-10%	-27%
	<u>\$ 4,162,344</u>	<u>\$ 4,242,714</u>	<u>\$ 3,676,267</u>	<u>-2%</u>	<u>13%</u>

	Six months ended		Change from comparable 2019
	June 30, 2020	June 30, 2019	
Revenue			
Recurring revenue	\$ 7,832,875	\$ 6,463,530	21%
Professional services	572,183	729,922	-22%
	<u>\$ 8,405,058</u>	<u>\$ 7,193,452</u>	<u>17%</u>

Total revenue for the three months ended June 30, 2020 was \$4,162,344 representing a 2% decrease over the first quarter of 2020 revenue of \$4,242,714 and a 13% increase over the comparable second quarter of 2019 revenue of \$3,676,267. Total revenue for the six months ended June 30, 2020 was \$8,405,058 representing an increase of 17% over the comparable six months in 2019.

Recurring revenue for the three months ended June 30, 2020 was \$3,890,920 compared to \$3,941,955 in the first quarter of 2020 and compared to \$3,304,579 in the comparable second quarter of 2019 representing a decrease of 1% and increase of 18% respectively. The decrease in revenue was due to a reduced bookings when the COVID-19 pandemic hit through the majority of the quarter ended June 30, 2020. Recurring revenue for the six months ended June 30, 2020 was \$7,832,875 representing an increase of 21% over the comparable six months in 2019. Recurring revenue increased due to continued investment in sales and marketing activities which has subsequently driven larger revenue from the customer base.



Professional services revenue decreased to \$271,2424 for the three months ended June 30, 2020 compared to \$300,759 in the first quarter of 2020 and \$371,688 in the comparable second quarter of 2019. Professional service revenue mainly relates to the deployment services for new implementations or expansions for new use cases or in new geographies. These deployment services tend to increase at a similar rate to subscription bookings. See “Forward Looking Statements” above.

### 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		
	June 30, 2020	March 31, 2020	June 30, 2019
Gross Margin on:			
Total revenue	88%	85%	84%
Recurring revenue	93%	92%	90%
Professional services revenue	20%	1%	29%
	Six months ended		
	June 30, 2020	June 30, 2019	
Gross Margin on:			
Total revenue		87%	83%
Recurring revenue		92%	89%
Professional services		10%	24%

Total revenue gross margin for the three months ended June 30, 2020 was \$3,670,350 representing 88% of revenue compared to gross margin of \$3,072,594 representing 84% for the comparable period in 2019 and \$3,622,943 representing 85% of revenue in the first quarter of 2020. Total revenue gross margin for the six months ended June 30, 2020 was 87% compared to 83% for the comparable six months in 2019. The increase in gross margin % was mostly due to government assistance relating to the Innovative Assistance program (IAP) which provided assistance to small and medium-size business in the form of a salary subsidy for up to 12 weeks from April 1, 2020 to June 23, 2020. IAP received in the second quarter of 2020 was as follows: \$61,976 relating to cost of revenue – recurring revenue and \$92,238 relating to cost of revenue – professional and other services.

Recurring revenue gross margin was \$3,615,055 representing 93% of recurring revenue for the three months ended June 30, 2020, compared \$2,964,944 representing 90% in the comparable second quarter 2019 and \$3,620,155 or 92% in the first quarter of 2020. Recurring revenue gross margin as a percent of recurring revenue for the last 3 years have remained in the range of 88% to 93%. These gross margins may fluctuate as we add new functionality offset by economies of scale. The gross margin for the quarter ended June 30, 2020 of 93% is at the higher end of this range mainly due to the government assistance we received and would have been 91% without the IAP funding. Recurring revenue gross margin for the six months ended June 30, 2020 was 92% compared to 89% for the comparable six months in 2019.

Professional services gross margin was \$55,295, representing 20% of professional services revenue for the three months ended June 30, 2020 compared to a gross margin of \$107,560, representing 29% of professional services revenue for the three months ended June 30, 2019 and \$2,788 or 1% in the first quarter of 2020. Professional services gross margin for the six months ended June 30, 2020 was 10% compared to 24% for the comparable six months in 2019.

## 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 six months ended June 30, 2020, research and development expense increased to \$2,343,240 from \$2,285,248 for the comparable period of 2019. Research and development expenses are shown net of Government Investment tax credits (“ITC’s”) and other government assistance as follows:

	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
Gross Research and Development expense	\$ 1,490,820	\$ 1,405,931	\$ 1,254,786
Less:			
Investment tax credits	(7,336)	(7,314)	(9,175)
Industrial Research Assistance Program	(272,090)	(217,250)	(450)
Innovative Assistance Program	(49,521)	-	-
	<u>\$ 1,161,873</u>	<u>\$ 1,181,367</u>	<u>\$ 1,245,161</u>

We expect that the ITC’s will accrue at approximately \$7,500 per quarter in the short term and we will continue to pursue additional funding under Government funding programs. The National Research Council of Canada Industrial Research Assistance Program (NRC IRAP) approved funding up to CAD \$750,000 over the next two years to further innovate and advance our product. The funding for the three months ended June 30, 2020 under this project was \$272,090 which offset a portion of remuneration, contractor and overhead costs related to IRAP related projects. The total amount of funding received under this project as of June 30, 2020 was CAD \$749,900.

During the quarter ended June 30, 2020, the Company recorded government assistance of \$49,251 relating to the IAP.

Gross research and development costs increased over the first two quarters of 2019 as we continue to expand our product capabilities. We expect R&D expense to remain flat or increase slightly for 2020 as we hold steady in the current environment but expect reduced benefit as the IRAP funding under the current program is complete but we may pursue government funding in future. 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 and marketing personnel. Other significant sales and marketing expenses include travel, rent and other occupancy costs, and living costs for the sales and marketing staff, and other advertising, promotion and trade show costs.

Our sales and marketing expenses increased in the six months ended June 30, 2020 to \$3,411,237 from \$3,103,827 for the six months ended June 30, 2019. The increase was mainly due to additional resources, higher variable compensation on new sales and channel development. Sales and marketing expense decreased to \$1,545,168 from \$1,866,069 for the three months ended June 30, 2020 mainly due to funding received from the IAP program. We expect that sales and marketing expense will increase slightly until we see demand begin to increase and then we may start to add additional resources. As we see further growth, we plan to return to re-investing our growth proceeds into resources to pursue additional growth with a focus on sales and marketing. See “Forward Looking Statements” above.

	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
Gross Selling and marketing expense	\$ 1,879,720	\$ 1,866,069	\$ 1,561,004
Less:			
Innovative Assistance Program	(334,552)	-	-
	<u>\$ 1,545,168</u>	<u>\$ 1,866,069</u>	<u>\$ 1,561,004</u>

### 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, rent and other occupancy costs.

Our general and administrative expenses increased to \$1,429,051 for the six months ended June 30, 2020 compared to \$1,364,084 for the six months ended June 30, 2019 as we continue to add infrastructure to support the growth in the organization and an increase in the provision for bad debts related to the COVID-19 pandemic. We expect that general and administrative expenses will hold steady in the current environment before we return to moderately adding infrastructure for operations. See "Forward Looking Statements" above.

	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
Gross general and administrative expenses	\$ 712,385	\$ 813,461	\$ 683,665
Less:			
Innovative Assistance Program	(96,795)	-	-
	<u>\$ 615,590</u>	<u>\$ 813,461</u>	<u>\$ 683,665</u>

### Foreign Exchange Gain (Loss)

Foreign exchange gain (loss) relates primarily to the impact of the relative weakness of the Canadian dollar against the US dollar on the Company's CAD denominated monetary assets and liabilities. The Company had a foreign exchange gain of approximately \$123,104 in the first half of 2020 due to the effect on net Canadian monetary liabilities from the US dollar decreasing in value compared to the Canadian dollar.

### Interest and accretion

Interest and accretion relates primarily to the interest on the CAD \$4 million 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. Accretion relates to discounts applied at the inception of the loan from 1) loan costs, 2) the bifurcation of the derivative liability and 3) 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 of up to 1.25% per year 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. The interest rate has increased to 8.25% in 2018 and to 9% effective October 16, 2019. The derivative liability is revalued by management at the end of each reporting period.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2020, cash was \$5,523,551 and working capital was \$3,593,238. Excluding current deferred revenue, working capital at June 30, 2020 was \$6,877,349. Given the reduced cash outflow from operations and our existing cash and cash equivalents, we believe there is sufficient liquidity to meet our current and planned financial obligations in the foreseeable future. Our future financing requirements will depend on many factors including our growth rate, subscription renewal activity, the timing and extent of spending to support development of our platform, and the expansion of sales and marketing activities. Our BDCC debt matures on September 15, 2021 and while we currently expect that we will have 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. The Board of Directors has not established capital benchmarks or other targets.

During the current COVID-19 situation, we may see additional difficulties in collecting outstanding amounts due from customers.

#### *Operations*

Cash provided by operating activities for the six months ended June 30, 2020 totaled \$43,980 compared to \$131,847 for the six months ended June 30, 2019. The decrease in cash provided by operating activities is driven primarily by lower deferred revenue offset by a reduction in the net loss.

#### *Financing Activities*

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.

#### *Investing Activities*

Purchases of property and equipment was \$41,419 for the six months ended June 30, 2020 compared to \$126,057 for the six months ended June 30, 2019 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.

## ADOPTION OF NEW ACCOUNTING POLICIES

There were no new accounting policies adopted in the three months ended June 30, 2020.

## OTHER OBLIGATIONS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

The Company leases office premises from a company controlled by the Chairman of the Board, Sir Terrence Matthews. This office premise is included as part of the right-of-use assets of \$785,085 and as part of lease obligations of \$829,692.

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

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).

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 \$78,848 (\$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 variable lease payments and the Company's other contractual obligations outstanding as at June 30, 2020:

	<b>Payments due by Period</b>			
	<b>Total</b>	<b>Year 1</b>	<b>Years 2-3</b>	<b>Greater than 3 Years</b>
Office variable lease obligations	\$ 844,145	\$ 137,417	\$ 547,144	\$ 159,584
Derivative liability - BDCC Loan	88,966	72,094	16,872	-
Long-term debt - BDCC Loan	3,234,855	154,098	3,080,757	-
	<u>\$ 4,167,966</u>	<u>\$ 363,609</u>	<u>\$ 3,644,773</u>	<u>\$ 159,584</u>

## SUMMARY OF OUTSTANDING SHARES AND DILUTIVE INSTRUMENTS

The authorized capital of the Company consists of an unlimited number of common shares, of which 120,098,998 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 4,350,000 common shares at an exercise price of CAD \$0.45.

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 19,679,583. Options granted under the Option Plan to purchase up to an aggregate of 14,006,751 (average exercise price of CAD \$0.40) common shares are issued and outstanding.

Assuming that all of the outstanding options and warrants are vested and exercised, 138,480,332 common shares would be issued and outstanding on a fully diluted basis.

## QUARTERLY INFORMATION

	Three months ended			
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Revenue	\$ 4,162,344	\$ 4,242,714	\$ 4,070,466	\$ 3,840,001
Income (loss) from operations	347,719	(237,954)	(582,571)	(459,490)
Net income (loss)	\$ 207,720	\$ (167,945)	\$ (781,391)	\$ (421,111)
Weighted average number of shares outstanding basic and diluted	117,455,093	117,427,901	117,259,797	115,545,497
Net loss per common share, basic and diluted	\$ 0.00	\$ 0.00	\$ (0.01)	\$ 0.00

	Three months ended			
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Revenue	\$ 3,676,267	\$ 3,517,185	\$ 3,299,947	\$ 3,177,846
Income (loss) from operations	(417,236)	(398,337)	(467,236)	(510,975)
Net income (loss)	\$ (530,042)	\$ (532,934)	\$ (409,571)	\$ (642,066)
Weighted average number of shares outstanding basic and diluted	109,926,030	107,961,594	108,361,475	107,766,859
Net loss per common share, basic and diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)

## 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 Income (Loss) from Operations as an Additional GAAP Measure and we use Non-GAAP financial measures, including Non-GAAP Income (Loss) from Operations and Non-GAAP Net Income (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.

### Income (Loss) from Operations

The Company uses "Income (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.

Income (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 Income (Loss) from Operations

The Company uses "Non-GAAP Income (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 Income (Loss) from Operations is calculated as follows:

#### Non-GAAP Income (loss) from Operations

	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
GAAP Income (loss) from Operations	\$ 347,719	\$ (237,954)	\$ (417,236)
Add back:			
Share based compensation	98,070	148,199	82,320
	<u>\$ 445,789</u>	<u>\$ (89,755)</u>	<u>\$ (334,916)</u>

#### Non-GAAP Income (loss) from Operations

	Six months ended	
	June 30, 2020	June 30, 2019
GAAP Income (loss) from Operations	\$ 109,765	\$ (815,573)
Add back:		
Share based compensation	246,269	193,831
	<u>\$ 356,034</u>	<u>\$ (621,742)</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 Income (Loss)

The Company uses “Non-GAAP Net Income (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 Income (Loss) from Operations is calculated as follows:

Non-GAAP Net Income (loss)	Three months ended		
	June 30, 2020	March 31, 2020	June 30, 2019
GAAP Net Income (loss)	\$ 207,720	\$ (167,945)	\$ (530,042)
Add back:			
Share based compensation	98,070	148,199	82,320
Accretion on long-term debt	46,293	44,620	41,018
Change in fair value of derivative	954	583	880
	<u>\$ 353,037</u>	<u>\$ 25,457</u>	<u>\$ (405,824)</u>

Non-GAAP Net Income (loss)	Six months ended	
	June 30, 2020	June 30, 2019
GAAP Net Income (loss)	\$ 39,775	\$ (1,062,976)
Add back:		
Share based compensation	246,269	193,831
Accretion on long-term debt	90,913	79,333
Change in fair value of derivative	1,537	10,407
	<u>\$ 378,494</u>	<u>\$ (779,405)</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).