# MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

For the Three and Nine Months Period Ended September 30, 2019

## Basis of Presentation:

The following discussion of the financial condition and results of operations of Noble Iron Inc. ("Noble Iron," or the "Company") should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months period ended September 30, 2019 and September 30, 2018, which were prepared under International Financial Reporting Standards ("IFRS") using the Noble Iron Inc.'s functional currency of Canadian dollars. This MD&A has been prepared as of November 28, 2019 to help investors understand the financial performance of the Company and to provide information that management believes is relevant for an assessment and understanding of the business, risks, opportunities and performance measures of the Company. We have prepared this document in conjunction with our broader responsibilities for the accuracy and reliability of the financial statements and the development and maintenance of appropriate internal controls in our efforts to ensure that the financial information is complete and reliable. The Company's Board of Directors has reviewed this document and all other publicly reported financial information for integrity, usefulness and consistency.

Additional information about the Company, including copies of the Company's continuous disclosure materials, is available at www.nobleiron.com or under the Company's profile on SEDAR at www.SEDAR.com. The Company maintains its registered head office in Ontario, Canada, with executive management based in California, USA. The Company's Investor Relations department can be reached at 1 (866) 762-9475. The information on the Company's website is not considered to be a part of this MD&A.

## Forward Looking Statements:

This document may contain forward-looking statements that reflect the Company's current expectations regarding future events. The forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "estimate", "expect", "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including the difficulty in predicting acceptance of and demands for new products and services, the impact of the products, services and pricing strategies of competitors, delays in developing and launching new products and services, fluctuations in operating results and other risks, any of which could cause actual results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. There are many inherent risks in the industry in which the Company operates. The reader should consult the Company's ongoing public filings available on www.SEDAR.com under the Company profile for additional information on risks and uncertainties relating to these forward-looking statements. The reader should not place undue reliance on any forward-looking statements. Management assumes no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise, unless required by law.

## Non-IFRS Measure:

The term "Adjusted EBITDA" used in this MD&A refers to net earnings (loss) before interest expense, income taxes, depreciation, amortization, acquisition expenses, stock-based compensation, severances, foreign exchange, lease termination payments and other extra ordinary and non-recurring items. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration the other items listed above. The MD&A presents adjusted EBITDA, as a non-IFRS financial measure, to assist readers in understanding the Company's performance during the period in discussion herein. (Please refer to table 2 on page 5 of this MD&A for a reconciliation of Adjusted EBITDA to the "Issuer's GAAP" (as such term is defined in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*). This non-IFRS measure does not have any standardized meaning and is therefore unlikely to be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

## Overview:

Noble Iron operated directly in equipment rental and equipment sales until May 5, 2017 and continues to develop and sell cloud-based and on-premise software for construction and industrial equipment owners and users.

The Company is focused on investing in scaling its software business by developing and deploying new Software-as-a-Service (SaaS) products to existing and new customers in various construction and industrial service sectors. The Company's strategy involves establishing a platform ecosystem, comprised of multiple software applications and services, to make our customers' work easy and instant. The strategy includes developing software products and new service offerings internally, as well as exploring acquisitions, partnerships, and other investment initiatives.

The Company's software division operates under the name "Texada Software." Texada Software offers cloud or client-based software for equipment rental companies, equipment dealerships, construction companies, contractors, and customers who own or use construction or industrial equipment. Texada Software develops software applications to manage the equipment ownership lifecycle, including equipment purchasing, rental and sales transactions, inventory management, maintenance and depreciation tracking, as well as used equipment sales, disposal and inventory replenishment. Following the sale of the equipment rental and dealership operations, the Company's sole operating business is currently in software. Since June 2017, the Company has focused on investing in its software business, and has expanded its software resources with additional engineering, sales and marketing investment in Canada and the United States. The Company plans to further develop and deploy its existing software applications, including SRM (Systematic Rental Management), and new products such as FleetLogic, Gateway and RentalLogic. The Company also plans to consider additional strategic opportunities in addition to software.

The Company is subject to a number of risks and uncertainties associated with the achievement of sustainable profitability. The Company has incurred net losses and used significant cash in its operating activities since incorporation. It has relied significantly upon external financing to fund its operations and to establish its infrastructure, primarily through debt and private equity placements.

## Recent Developments:

Over the course of 2018, the Company invested in developing a stand-alone version of FleetLogic, which can be used independently of SRM, the Company's existing ERP (Enterprise Resource Planning) software product. FleetLogic is a mobile and desktop software application that enables users to manage inspections and work orders, track asset-specific history and parts specifications, pickups and deliveries, and look up equipment availability, status and location in real-time. The first Fleetlogic stand-alone sale to a customer occurred in October 2017. FleetLogic's first customer launch was with HirePool, New Zealand's largest independent equipment rental company. FleetLogic is being deployed to equipment service professionals managing HirePool's equipment fleet at over 60 locations.

On February 28, 2018, the Company announced that following Toromont's recent acquisition of the assets of Hewitt Equipment, representing the largest Caterpillar dealer acquisition to date, Texada Software will implement its software products at Hewitt's equipment rental and dealership operations acquired by Toromont. Toromont provides specialized equipment to diverse sectors, and Toromont's Caterpillar dealership operates 120 branches across Canada.

In February 2018, the Company also announced two new software products under development, Vision X and RentalLogic. Vision X is an augmented reality (AR) application that empowers mechanics, field service technicians and drivers to more effectively diagnose and repair equipment issues. Users of Vision X interact with photorealistic 3D models of construction and industrial equipment to conduct virtual disassembly or repair procedures. Sales representatives can use Vision X as a tool to virtually demonstrate equipment and parts. Vision X also integrates with a customer's inventory and work order management software, so users can view 3D AR models of specific equipment in their fleet, including an asset's complete service history, telematics sensor readings, and predictive analytics. Users can also see real-time parts inventory levels and order parts directly within Vision X.

During the second half of 2018, the Company invested in developing RentalLogic, a cloud-based software application designed to maximize productivity for any business offering rental transactions. RentalLogic captures reservations, manages inventory availability, and streamlines the contract, invoice generation, rental return and payment process. Additional modules such as work order management, e-commerce store and integration with a company's accounting software will also be available to scale RentalLogic's capabilities.

In the second quarter of fiscal year 2018, the Company was selected as a preferred software vendor by Home Hardware for its 70+ rental locations.

During the nine months ended September 30, 2019, the Company continued to invest in developing its software products and growing its customer base. During the second quarter of 2019, the Company invested in developing a payment processing platform which it calls "Texada Pay". Texada Pay provides Texada's rental and asset management software customers with the capability to process credit cards and ACH payments directly within their own applications and Texada's e-commerce store and Customer Portal solution, called "Gateway". Texada Pay also offers the ability to properly store credit card and ACH information, so that customers can easily collect payments for cycle-billed rental transactions.

Texada Pay was officially released to the North American market in the third quarter of 2019. The Company is working on releasing Texada Pay to its Asia Pacific customers in the fourth quarter.

The Company also invested in the development of a *Business Intelligence (BI)* tool, "Texada Analytics", a comprehensive custmizable dashboard for our customers who use our software for managing their business.

## Description of Noble Iron's Business:

### Enterprise Asset Management Software

Texada Software's revenues are derived from license revenues that include user license fees, server license fees, Software-as-a-Service ("SaaS") subscription fees, contract development, and upgrade fees. In addition to these fees, Texada Software generates maintenance and service revenue. The products are generally licensed under single-year or multi-year terms, both of which are arranged to automatically renew. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates. Service revenue consists of professional fees charged for product training, consulting, and implementation and programming services. Contract revenue is derived from contracts for the development of custom applications. Customers typically purchase a combination of software, maintenance, and professional services.

## Noble Iron's Markets:

### Equipment Asset Management Software

Customers in the North American construction equipment rental sector currently account for approximately 90% of the Company's software revenue. It is estimated that there are more than 30,000 companies worldwide that rent various types of equipment, 12,000 of which conduct business in the United States and Canada.

The market for rental management software has existed for over 30 years, and management estimates there are more than 200 providers of rental management software to the three primary segments of the rental market. Most companies in this sector are private companies, making it difficult to accurately assess the size of this market.

Management's view is that the increased adoption of cloud-based software and mobile applications among the Company's existing and target software customers presents significant growth opportunities.

### Industry and economic factors

Over the course of 2018 and the first three quarters of 2019, no significant broader industry or economic factors had any material impact on the Company's performance. The Company's view is that the rising trend of the rental market in construction, industrial and other applications will cause the Company's current customer base to further grow and will also usher in new entrants into the rental industry, yielding a growing market for the Company's software offerings.

## 2019 and 2018 Business Developments:

## Company Results

The Company's objectives during the third quarter of 2019 included the ongoing migration of its existing customers from customized software products to its current standard version, converting on-premise software clients to Texada's SaaS cloud-based offering as well as developing and marketing specific software products, mobile applications and support capabilities. The Company also invested in additional software development, marketing and sales resources to further expand the software customer base and to serve existing customers with new products and services.

The Company continues to focus on building scalable operating processes and capabilities, investing in the Company's management and operating teams, and developing and marketing new proprietary software, such as the FleetLogic and RentalLogic applications.

## Results from Continuing Operations:

## Consolidated Financial Highlights from Continuing Operations

**Table 1:**

| Consolidated Financial Highlights from continuing operations (000's except EPS) | Nine Months Ended | | Three Months Ended | |
|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| Revenue | $ 4,345 | $ 4,211 | $ 1,388 | $ 1,384 |
| Cost of Revenue | (552) | (579) | (184) | (176) |
| Expenses, interest, and taxes | (6,761) | (5,112) | (2,194) | (1,477) |
| Net Loss | $ (2,969) | $ (1,480) | $ (991) | $ (269) |
| Adjusted EBITDA* | (2,778) | (1,673) | (942) | (356) |
| Loss per share - basic and diluted | ($0.11) | ($0.05) | ($0.04) | ($0.01) |

| | As at September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| Total Assets | 7,075 | 10,025 |
| Total Current Liabilities | 932 | 962 |
| Total Non-Current Liabilities | 292 | - |
| Total Shareholders Equity | 5,851 | 9,063 |

* Adjusted EBITDA is a non-IFRS measure and is discussed in the "Introduction – Non-IFRS Measure" section of the MD&A.

**Table 2:**

| Comparative Financial Results (000's) - Consolidated Company from continuing operations | Nine Months Ended | | | Three Months Ended | | |
|---|---|---|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | Percentage Change | September 30, 2019 | September 30, 2018 | Percentage Change |
| **Revenue** | $ 4,345 | $ 4,211 | 3% | $ 1,388 | $ 1,384 | 0% |
| **Cost of revenue** | (552) | (579) | 5% | (184) | (176) | (5%) |
| **Expenses** | | | | | | |
| Support, maintenance and delivery | (953) | (1,533) | 38% | (286) | (503) | 43% |
| Research and development | (2,135) | (1,202) | (78%) | (685) | (457) | (50%) |
| Sales and marketing | (1,238) | (336) | (268%) | (425) | (144) | (195%) |
| General and administration | (2,445) | (2,447) | 0% | (817) | (529) | (54%) |
| Income tax expense | - | 37 | 100% | - | 102 | 100% |
| Interest income | 15 | - | | 5 | - | |
| Foreign exchange (loss) gain | (5) | 369 | (101%) | 14 | 54 | (74%) |
| **Net loss** | **(2,969)** | **(1,480)** | **(101%)** | **(991)** | **(269)** | **(268%)** |
| **Add:** | | | | | | |
| Depreciation / Amortization | 181 | 155 | (17%) | 62 | 52 | (19%) |
| Income tax expense | - | (37) | 100% | - | (102) | 100% |
| Share based payments | 20 | 58 | 66% | 6 | 16 | 64% |
| Interest income | (15) | - | | (5) | - | |
| Foreign exchange loss (gain) | 5 | (369) | 101% | (14) | (53) | 73% |
| **Adjusted EBITDA*** | **($2,778)** | **($1,673)** | **(66%)** | **($942)** | **($356)** | **(164%)** |
| **Loss per share - basic and diluted** | **($0.11)** | **($0.05)** | **(117%)** | **($0.04)** | **($0.03)** | **(21%)** |

* Adjusted EBITDA is a non-IFRS measure and is discussed in the "Introduction – Non-IFRS Measure" section of the MD&A.

**Table 3:**

| Quarterly Results (000's) | 2019 | | | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Revenue | $ 1,388 | $ 1,516 | $ 1,441 | $ 1,895 | $ 1,384 | $ 1,367 | $ 1,460 | $ 1,220 |
| Cost of revenue | (184) | (194) | (174) | (185) | (176) | (208) | (195) | (234) |
| Net (loss) from continuing operations | (991) | (975) | (1,003) | (1,618) | (269) | (889) | (323) | (1,195) |
| Income (loss) from discontinued operations, net of tax | - | - | - | - | - | - | - | (528) |
| Net loss | (991) | (975) | (1,003) | (1,618) | (269) | (889) | (323) | (1,723) |
| **Add Back:** | | | | | | | | |
| Depreciation/Amortization expense | 62 | 60 | 59 | 16 | 52 | 51 | 51 | 149 |
| Income tax (recovery) expense | - | - | - | (118) | (102) | 54 | 11 | (352) |
| Share based payments | 6 | 6 | 8 | 11 | 16 | 19 | 22 | 76 |
| Interest income | (5) | (6) | (4) | (3) | - | - | - | - |
| Severance and other | - | - | - | - | - | - | - | - |
| Foreign exchange loss (gain) | (14) | (3) | 22 | 1,032 | (53) | 88 | (403) | 39 |
| Adjusted EBITDA from continuing operations | (942) | (918) | (919) | (680) | (356) | (677) | (641) | (1,283) |
| (Loss) Earnings per share - basic and diluted-Continuing operations | $ (0.04) | $ (0.04) | $ (0.04) | (0.06) | (0.01) | (0.03) | $ (0.01) | $ (0.04) |
| (Loss) Earnings per share - basic and diluted-for discontinued operations | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ (0.02) |
| Weighted Avg. Shares Outstanding (Basic)** | 27,363,643 | 27,363,643 | 27,363,643 | 27,363,643 | 27,288,908 | 27,417,479 | 27,417,479 | 27,417,479 |
| Weighted Avg. Shares Outstanding (Diluted) | 27,363,643 | 27,363,643 | 27,363,643 | 27,363,643 | 27,288,908 | 27,417,479 | 27,417,479 | 27,417,479 |

* Adjusted EBITDA is a non-IFRS measure and is discussed in the "Introduction – Non-IFRS Measure" section of the MD&A.
** Weighted average shares outstanding (Basic) does not include the 1,973,000 options outstanding as at September 30, 2019.

The Company recorded revenues of $4.3 million and $4.2 million for the nine months ended September 30, 2019 and 2018, respectively, from continuing operations, resulting in a period-over-period increase of 3% or $0.1 million. The increase is due to a few new customers going live during the third quarter of 2019. For the three months ended September 30, 2019 and 2018 the Company recorded revenues of $1.4 million each. Even though the monthly recurring revenue was higher during the third quarter of 2019 over the third quarter of 2018, the total revenue remained the same due to a decrease in services and programming revenue during this quarter. As of the date of filing of this MD&A, the Company has, onboarded new customers but not yet implemented revenue from such customers, 'back log revenues', of approximately $1.1 million, comprising of $0.7 million in annual recurring revenue and $0.4 million of non-recurring revenue such as services and implementation. Back log revenues does not include unrecognized revenue from existing customers.

The Company recorded cost of revenue of $0.5 million for each of the nine months ended September 30, 2019 and September 30, 2018, which has been relatively consistent over the quarters.

The Company recorded expenses of $6.8 million and $5.1 million for the nine months ended September 30, 2019 and 2018, respectively, resulting in an increase of 32% or $1.7 million. This increase is in line with the Company's growth plan and reflects increased investment in product and technology development as well as increased investment in sales and marketing. In addition, during the third quarter of 2018 the Company settled a dispute with a vendor for an expected net refund of $0.3 million, which was recorded as a negative expense under General and administrative expenses on the consolidated statements of comprehensive loss.

The Company recorded a net loss of $3.0 million and a net loss of $1.5 million for the nine months ended September 30, 2019 and 2018, respectively, resulting in an increase in loss of $1.5 million. Net loss for the nine months of 2018 was partially offset by a gain of $0.3 million due to a settlement with a vendor and $0.4 million foreign currency translation adjustment that had been erroneously recoded as unrealized foreign exchange gain in the interim condensed consolidated statements of comprehensive loss as part of the net loss instead of other comprehensive income. This error was corrected in the fourth quarter of 2018. Increase in loss in the nine months of 2019 is in line with the investment in development and growth efforts. For the three months ended September 30, 2019 the Company recorded a net loss of $1.0 million compared to a net loss of $0.4 million for the three months ended September 30, 2018.

The Company reported Adjusted EBITDA of ($2.8) million and ($1.7) million for the nine months ended September 30, 2019 and 2018 respectively. The resulting increase is in line with the Company's investment in product development and market penetration efforts.

The decrease of $3.0 million in total assets of the Company is directly as a result of continued investment in research and development of new products and services, highly skilled personnel, sales and marketing and other strategic growth initiatives. The decrease in total shareholders' equity of $3.2 million since December 2018 is in line with the net loss for the year of $3.0

million further reduced by the impact of the cumulative translation adjustment of $0.3 million on the Company's foreign entities balances.

## Liquidity:

Liquidity risk is the risk the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk through cash and debt management. See "Liquidity Risk" below.

The Company manages liquidity by assessing future cash flow requirements. Cash flow estimates are based upon rolling forecasts that consider cash restrictions and anticipated operating results. Cash, which is surplus to working capital requirements is typically held as deposits, in both US and Canadian funds, with larger financial institutions. Following the sale of the Los Angeles operations, the Company repaid all outstanding loans and commitments in fiscal year 2017 and currently has no outstanding loans.

## Cash Flow:

As of September 30, 2019, the Company had cash and cash equivalents of $5.2 million and working capital of $5.3 million compared to cash and cash equivalents of $7.8 million and working capital of $8.5 million as at December 31, 2018 and cash of $8.0 million and working capital of $8.3 million as at September 30, 2018. The decrease is due to cash used in operating activities, primarily investment in development of new products, increase in sales and marketing efforts and hiring of highly skilled employees to assist the growth of the Company's business.

During the nine months ended September 30, 2019, the Company did not make any long-term commitments. The Company continues to invest in research and development of new products and services, sales and marketing and other strategic growth initiatives.

## Off-Balance Sheet Arrangements:

During the nine months ended September 30, 2019, the Company did not participate in any off-balance sheet arrangements.

## Transactions Between Related Parties:

The Company's related parties are its Board of Directors and key management personnel, including the Company's Chairman and Chief Executive Officer, Nabil Kassam, as well as any companies controlled by key management personnel or directors.

Transactions conducted with related parties took place in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties. These transactions are comprised of employment compensation, benefits and share-based compensation awards.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

## Changes in Accounting Policies:

The significant accounting policies used in preparing the three and nine months ended September 30, 2019 interim condensed consolidated financial statements are unchanged from those disclosed in the Company's 2018 annual consolidated financial statements except for the review, assessment, and implementation of IFRS 16 in its interim condensed consolidated financial statements for the period beginning on January 1, 2019. Further details on the financial impact can be found in the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 available under the Company's profile on www.SEDAR.com

New standards and interpretations adopted:

i) Adoption of IFRS 16 – Leases ("IFRS 16")

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating*

*Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Company adopted IFRS 16 using the modified retrospective approach of adoption with the date of initial application of January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as preciously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

a. Definition of a lease

The Company now assesses whether a contract is or contains a lease based on the new definition of a lease under IFRIC 4. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.75%.

On transition to IFRS 16, the Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed.

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company also elected to use the practical expedients permitted by the standard to exclude the initial direct costs for the measurement of the right-of-use asset at the date of initial application, and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

b. As a lessee

The Company leases an office space. The rental contact was made for fixed period of 10 years but may have extension options as described in (ii) below. Lease terms were negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreement does not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, lease of property was classified as an operating lease. Payments made under operating lease was charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and restoration costs.

The Company recognized the right-of-use assets under Property, plant and equipment on the interim consolidated statements of financial position. The carrying amount of the right-of-use assets is as below:

| | Property<br>$ |
|---|---|
| Balance at January 1, 2019 | 361,293 |
| Balance at September 30, 2019 | 332,539 |

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

i. Significant accounting policies

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and adjusted for any remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses the incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured if there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under the residual value guarantee, or as appropriate, changes in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

ii. Transition

Previously, the Company classified property lease as an operating lease under IAS 17. The lease typically runs for a period of 10 years. The lease includes an option to renew the lease for an additional five years after the end of the non-cancellable period.

At transition, for lease classified as operating lease under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets was measured at:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating lease under IAS 17:

- applied the exemption not to recognize right-of-use assets or liabilities for leases with less than 12 months of lease term
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application
- used hindsight when determining the lease term where the lease contains options to extend or terminate the lease.

c. Impacts on consolidated financial statements

i. Impacts on transition

On transition to IFRS 16, when measuring the lease liabilities that were classified as operating leases, the Company discounted the lease payments using its incremental borrowing rate at January 1, 2019. The rate applied is 5.75%.

ii. Impacts for the period

As a result of applying IFRS 16, in relation to lease that was previously classified as an operating lease, the Company recognized $361,293 of right-of-use assets and lease liabilities on January 1, 2019.

Also, in relation to the lease under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the three and nine months ended September 30, 2019, the Company recognized depreciation charge of $11,781 and $23,563 respectively, and interest costs of $4,874 and $15,304 respectively, from the lease in the interim condensed consolidated statements of comprehensive loss.

## Financial Instruments:

The Company is exposed to certain risks related to its financial instruments during its normal course of business including, but not limited to liquidity risk, foreign currency risk, interest rate risk, and credit risk. The Company's financial instruments are detailed below. The Company manages these financial instruments to support the Company's strategy for growth and ongoing operations.

Management has determined the carrying amount of its short-term financial assets, including cash and cash equivalents and accounts receivable, approximates fair value at the reporting date. The amortized cost related to these items as of September 30, 2019 was $6.3 million (September 30, 2018 - $8.4 million). The carrying value of the short-term loan receivable approximates fair value.

Management has determined that the carrying amount of its short-term financial liabilities, including accounts payable and accrued liabilities and other current liabilities approximate fair value at the reporting date due to the short-term maturity of these obligations. The amortized cost related to these items as of September 30, 2019 was $0.9 million (2018 - $0.7 million).

The Company did not have any short-term or long-term debt that is measured at amortized cost as at September 30, 2019 and September 30, 2018.

The Company did not have any financial instruments that are measured at fair value at September 30, 2019 and September 30, 2018.

## Capital Resources:

During the first three quarters of 2019 and as at September 30, 2019, the Company did not make, and has no commitments for capital expenditures. Management does not expect fluctuations in the Company's capital resources. There are no sources of financing that the Company has arranged but not yet used.

## Risks and Uncertainties:

The Company's management team is responsible for the evaluation and management of risk factors affecting the Company. The following is management's assessment of the significant risks that would have the greatest impact on the Company over the ensuing 12 to 18 months given currently available information. This analysis contains forward looking statements that may differ materially from actual results.

**Liquidity Risk:**

The Company is subject to a number of risks and uncertainties associated with the achievement of sustainable profitability and with the financing requirements of its operations. Prior to the sale of the California equipment and rental business, the Company incurred net losses and used significant cash in its operating activities since incorporation. It has relied upon financing to fund its operations and to establish its infrastructure, primarily through debt and private equity placements.

Following the sale of California rental business and repayment of substantially all of the Company's debt, liquidity risk to the Company has been reduced, which is evidenced by September 30, 2019 cash and cash equivalents balance on hand of $5.2 million. However, the Company continues to use cash in its operations as evidenced by the cumulative net loss of $3.0 million in the first three quarters of 2019.

**Working capital requirements:**

The Company has sufficient financial resources to meet its current working capital requirements, current and planned personnel, infrastructure, systems, procedure and controls and new investments for the growth planned for at least 18 months,

without having to procure additional financing. If the Company fails to manage its expansion effectively, its business, operations and prospects may be materially and adversely affected.

The Company's business is characterized by high working capital requirements and the need to make investments into new products and employee resources to meet the requirements of our customers. Similar to the Company's competitors in its industry, it incurs significant development costs and investment in its products to provide solutions, hiring and training of new employee resources. Such expenses are historically incurred before revenues are generated.

The Company is exposed to adverse changes in its customers' payment practices. If its customers implement practices which extend the payment terms of the Company's invoices, its working capital levels could be adversely affected and may require us to look at working capital financing options within two years.

**Revenue and Collection Risk:**

The Company has a large number of customers with relatively small account balances and this exposes the Company to aggregate billing and collection risk. These risks can include missed billings, unwarranted credits, additional time to collect payments and greater risk of customer default. Continual process improvements are made to ensure timely collection of the Company's accounts receivable. These efforts include the positioning of resources and technology to improve the efficiency of invoicing, collections and customer credit extension.

**Technology and Software Development:**

The process of developing technology from concept stage, through to design and final production involves time to complete testing, redesign and adoption by customers. Unexpected testing results or performance irregularities are normal in a development process and can result in new product offerings being delayed beyond projected timeframes or slow adoption from customers. The risk of not developing and introducing reliable products, on a timely basis, presents a risk to the Company's software business.

**Reliance on Key Personnel:**

The success of the Company depends on the abilities, experience, efforts and knowledge of its senior management and other key employees, as well as its ability to retain and attract effective management and employees. The loss of services from key personnel could have a material adverse effect on the Company's business, financial condition, results of operations or future prospects, particularly since it does not enter into non-competition arrangements with senior management and other key employees in certain circumstances. In addition, the growth plans described in this MD&A may require additional employees, increase the demands on management, and produce risks in both productivity and retention levels. The Company may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on its business, financial condition, results of operations and future prospects.

**Foreign Currency and Exchange Risk:**

Foreign currency risk in the exchange rates between the Canadian dollar and foreign currencies could affect the Company's operating and financial results. The Company is exposed to foreign currency risk. To date, the Company has funded its growth by issuing equity in Canadian funds and raising debt in US dollars. The Company's management monitors exchange rate fluctuations and presently does not use any derivative instruments to manage foreign currency exposure. As the Company continues to grow its US operations, exposure to foreign currency risk may increase with the likelihood of the Company employing exchange rate derivative instruments.

## Outstanding Share Data:

The Company has authorized share capital of an unlimited number of common shares as well as 100,000,000 preferred shares without par value, issuable in one or more series. As of the date of filing this MD&A, the Company had 27,267,479 common shares issued and outstanding and no preferred shares outstanding.

The Board of Directors ratified, confirmed, and approved a Restricted Share Plan that was adopted effective June 10, 2014. A maximum of 1,000,000 of the Company's shares are available for grant under the Restricted Share Plan. As of the date of this filing, the Company had no restricted shares issued. Further information can be found in the Company's Interim Consolidated Financial Statements for the periods ended September 30, 2019 and 2018.

Pursuant to its stock option plan established May 15, 2002, amended June 10, 2014, the Company has reserved for issuance 3,283,095 of its common shares. As at September 30, 2019, the Company had a total of 1,973,000 stock options outstanding. There were no new grants during the third quarter of 2019.

## Subsequent Events:

Subsequent to the nine months ended September 30, 2019 the Company did not have any events to report.

Additional information relating to the Company is available under the Company's profile on SEDAR at www.SEDAR.com