
Versatile Systems Inc.
Management Discussion and Analysis
Nine months ended March 31, 2016

The following management discussion and analysis of the consolidated results of operations and financial condition of Versatile Systems Inc. (the “Company” or “Versatile”) is made as of May 30, 2016 on the unaudited interim condensed consolidated financial statements and notes as of and for the three months ended March 31, 2016.

The unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are stated in United States dollars unless otherwise specified. The unaudited interim condensed consolidated financial statements and management discussion and analysis have been reviewed and approved by the Company’s Audit Committee on May 30, 2016.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions, which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Forward-Looking Statements

This document may contain forward-looking statements relating to Versatile’s operations or to the environment in which it operates, which are based on Versatile’s operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond Versatile’s control. A number of important factors including those set forth in other public filings could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Versatile disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Overview

The Company’s core business is developing solutions that solve customers’ problems in the storage, security, transmission and collection of mission critical data. The Company’s proprietary software applications, the *Mobiquity*[™] Solution Suite, are a key component of this solution. This enables companies to improve the sales, marketing and distribution of their products. The Company delivers wireless/wired solutions to the consumer packaged goods, retail, financial, pharmaceutical, healthcare, and logistics verticals through an integrated combination of licensed software, professional services, and the re-sale of mobile and storage related hardware. The Company also offers maintenance and support via a 24 hour call center.

Overview (continued)

On October 14, 2014, the Company incorporated two new subsidiaries, Versatile Technology Services, Inc. (VTS) and Versatile Credit, Inc. (VCI) (which were both sold on July 1, 2015 – see below). Certain of Versatile Systems Inc.’s non-VAR assets were transferred to these subsidiaries on October 28, 2014 pursuant to secured party sales.

Following such transfers, on October 28, 2014, the Company’s subsidiary, Versatile Mobile Systems, Inc., caused its subsidiary, Versatile Acquisition Corporation (VAC), to enter into a stock sale agreement with BigVAR, LLC under which VAC sold all of the shares of its wholly-owned subsidiary, Versatile Systems Inc. (VSI), to BigVAR, LLC. Subsequently on July 1, 2015, the remaining Eastern U.S. operations (VCI and VTS) that were being held for sale were sold to Mass Capital Ventures, LLC (see below). VSI, VCI and VTS had operated as one operation prior to the stock sale on October 28, 2014.

The entire purchase price for the discontinued operations was to be paid to VAC over time based on an earn-out formula. Intangible assets transferred to the debt counterparty, BigVAR, LLC, with the stock sale represented customer contracts and re-sell agreements associated with VSI’s EIN number and were deemed to have nominal value and resulted in no distinguishable gain or loss. The earn-out payments from the formula are required by the debt counterparty to be applied against the principal balance of VAC’s \$1,400,000 term loan discussed in Note 4 of the unaudited interim condensed consolidated financial statements. To date, earn out payments of \$21,635 have been received by the debt counterparty. Additionally, \$400,000 was applied to the term loan as consideration for the sale of VCI and VTS (see below), and \$150,000 of the balance was paid down through additional borrowings on the VMS line of credit. VAC does not anticipate further earn-out payments from the counterparty.

During the fourth quarter of the June 30, 2015 fiscal year, Company’s management elected to divest VCI and VTS. This decision was taken in line with the Company’s strategy to focus on its mobile handheld division. Consequently, all non-current assets of VCI and VTS were classified as a disposal group. The disposal group’s assets and liabilities are measured at the lower of carrying value or fair value less costs to sell. As the fair value less costs to sell of the disposal group is greater than the carrying value, no impairment is necessary.

VCI and VTS were sold as of July 1, 2015. Total consideration of \$1.24 million was received for the divestiture and allocated as follows: 1) \$800,000 was applied to pay down outstanding indebtedness of Versatile Mobile Systems, Inc. 2) \$400,000 was applied to pay down the outstanding term loan of VAC, and 3) \$40,000 was applied to interest that will be payable to the debt counterparty in the future on the outstanding term loan of Versatile Acquisition Corporation. In addition, \$844,856 of net liabilities were liquidated with the sale of VCI and VTS. The total gain on sale was \$2,044,856.

Highlights of the Third Quarter

Highlights of the Company's operations for the quarter included:

- Revenue for the three months ended March 31, 2016 was \$3,535,534 compared to \$2,267,710 for the same quarter last year;
- The gross profit for the three months ended March 31, 2016 was \$663,566 or 18.8% of sales compared to \$522,294 or 23.0% of sales for the same quarter last year;
- Net loss for the quarter amounted to \$227,858 (\$0.00 per share) compared to \$522,088 (\$0.00 per share) for the same quarter last year;
- The research and development expense for the quarter amounted to \$164,157 compared to \$175,582 for the same quarter last year;
- Deferred revenue at March 31, 2016 was \$2,828,788 (of which \$825,712 is expected to be recognized in the next four quarters) compared to \$4,986,216 at March 31, 2015;

Review of the Third Quarter

The Company has incurred significant losses, the continuation of which is not sustainable. The Company continues to focus on implementing targeted cost reductions and directing efforts to the higher margin portions of the business in order to achieve profitable sales growth and return to overall profitability. The results of these efforts can be seen in the financial performance quarter over quarter.

Revenue for the three months ended March 31, 2016 was \$3,535,534 compared to \$2,267,710 for the same quarter last year, an increase of \$1,267,824.

The net loss for the quarter amount was \$227,858 (\$0.00 per share) compared to \$522,088 (\$0.00 per share) for the same period last year. The total comprehensive loss for the quarter amounted to \$271,032 compared to \$502,416 for the same quarter last year.

Cost of sales

Cost of sales for the quarter amounted to \$2,871,968 resulting in a gross profit of \$663,566 or 18.8% of sales as compared to \$1,745,416 resulting in a gross profit of \$522,294 or 23.0% of sales for the same quarter last year.

General and administrative

General and administrative expenses for the quarter amounted to \$365,779 compared to \$321,200 for the same quarter last year, an increase of \$44,579. As a percentage of sales, the general and administrative expenses were 10.3% in the quarter compared to 14.2% in the same quarter last year.

Review of the Third Quarter (continued)

Technology Investment

Over the past fifteen years the Company has made a significant investment in the form of expenses to advance the abilities of its technology and resulting service offering. This investment does not contribute directly to revenues during the period that the research and development expenses are incurred.

Research and development expense for the quarter amounted to \$164,157 compared to \$175,582 for the same quarter last year, a decrease of \$11,425. The significant expense item in this category is salary and benefit costs. As a percentage of sales, the research and development expenses are 4.6% in the quarter compared to 7.7% in the same quarter last year.

During the current period, the Company incurred \$164,157 for research and development activities related to *Mobiquity Route*TM and related mobile software products, compared to \$175,582 in the same period last year.

Selling and marketing expenses

Selling and marketing expense for the quarter amounted to \$333,522 compared to \$335,078 for the same quarter last year, a decrease of \$1,556. Selling and marketing expenses include salaries, commissions, advertising, trade shows and promotion costs to support the various sales initiatives. As a percentage of sales, the selling and marketing expenses are 9.4% in the quarter compared to 14.8% in the same quarter last year.

Amortization

The amortization of capital assets for the quarter amounted to \$5,097 (2015: \$17,143).

Foreign Exchange Gain

There was no foreign exchange gain for the quarter nor was there a foreign exchange gain for the same quarter last year.

Review of the Operations for the Nine Months Ended March 31, 2016

During the first three quarters, the Company has incurred significant losses, the continuation of which is not sustainable. The Company continues to focus on implementing targeted cost reductions and directing efforts to the higher margin portions of the business in order to achieve profitable sales growth and return to overall profitability.

In the third quarter, the Company continued to focus on reducing expenses and demonstrated a favorable trend in expense reduction in the third quarter compared to the first and second quarters. This will continue to be a focus into the fourth quarter.

Review of the Operations for the Nine Months Ended March 31, 2016 (continued)

Revenue for the nine months ended March 31, 2016 was \$8,583,742 generating a gross profit of \$2,082,172 or 24.3% of sales compared to \$10,647,012 generating a gross profit of \$1,910,578 or 17.9% of sales for the same period last year. The net income from continuing operations for the period amounted to \$1,510,962 (\$0.01 per share) compared to the net loss of \$904,449 (\$0.00 per share) for the same period last year. The net income from discontinued operations for the period amounted to \$26,552 compared to a net loss of \$840,770 for the same period last year.

Cost of Sales

Cost of sales for the nine months ended March 31, 2016 amounted to \$6,501,570 resulting in a gross profit of \$2,082,172 or 24.3% of sales compared to \$8,736,434 resulting in a gross profit of \$1,910,578 or 17.9% of sales as for the same period last year.

General and Administrative

General and administrative expenses for the nine months ended March 31, 2016 amounted to \$1,219,231 compared to \$1,038,059 for the same period last year, an increase of \$181,172. As a percentage of sales, the general and administrative expenses are 14.2% compared to 9.7% in the same period last year.

Technology Investment

Research and development expense for the nine months ended March 31, 2016 amounted to \$523,004 compared to \$537,370 for the same period last year, a decrease of \$14,366. The significant expense item in this category is salary and benefit costs. As a percentage of sales, the research and development expenses are 6.1% compared to 5.0% in the same period last year.

Selling and Marketing Expenses

Selling and marketing expense for the nine months ended March 31, 2016 amounted to \$1,002,461 compared to \$989,484 for the same period last year, an increase of \$12,977. As a percentage of sales, the selling and marketing expenses are 11.7% compared to 9.3% in the same period last year.

Amortization

The amortization of capital assets and intangible assets for the nine months ended March 31, 2016 amounted to \$38,311 compared to \$25,248 for the same period last year, an increase of \$13,063.

Review of the Operations for the Nine Months Ended March 31, 2016 (continued)

Foreign Exchange Gain

There was no foreign exchange gain for the nine months ended March 31, 2016 compared to \$2,021 for the same period last year. The gain was primarily due to foreign translation adjustments.

Summary of Quarterly Results

The table below provides a summary of certain selected unaudited financial information from the Consolidated Statements of Comprehensive Income (Loss) for the most recent eight fiscal quarters comprising the Company's preceding two years:

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Revenue	4,178,654	5,182,581	3,196,721	2,267,710	2,200,047	2,477,922	2,570,286	3,535,534
Cost of sales	3,831,691	4,358,667	2,632,351	1,745,416	1,849,356	1,794,098	1,835,504	2,871,968
Gross profit	346,963	823,914	564,370	522,294	350,691	683,824	734,782	663,566
Expenses:								
General and administrative								
(including foreign exchange gain or loss)	670,406	358,664	356,174	321,200	474,140	370,958	482,494	365,779
Research and development	203,501	182,121	179,667	175,582	192,274	194,516	164,331	164,157
Selling and marketing	423,570	327,898	326,508	335,078	385,690	337,090	331,849	333,522
	1,297,477	868,683	862,349	831,860	1,052,104	902,564	978,674	863,458
Loss before interest, taxes, and amortization	(950,514)	(44,769)	(297,979)	(309,566)	(701,413)	(218,740)	(243,892)	(199,892)
Amortization	(4,969)	(3,657)	(4,448)	(17,143)	(5,163)	(25,940)	(7,274)	(5,097)
Interest expense	(41,947)	(271,681)	(3,520)	(20,301)	2,358	(25,894)	(43,433)	(25,852)
Goodwill impairment	(2,718,970)	-	-	-	-	-	-	-
Gain (loss) on sale of capital assets	(110)	467	-	(10)	(24)	-	-	-
Unrealized gain (loss) on financial assets	-	(2,700)	(1,100)	(1,500)	(500)	(1,500)	400	(1,900)
Gain on derivative	244,549	57,814	-	-	-	-	-	-
Gain on sale of investment	567,019	-	-	-	-	-	-	-
Earn out income	-	-	-	21,635	-	-	-	-
Gain on sale of component	-	-	-	-	-	2,044,856	-	-
Other income	-	-	-	-	-	-	269,941	139
Income taxes	(337,475)	(1,200)	(1,251)	(3,540)	(1,200)	(2,560)	(1,200)	(1,200)
Net Earnings (Loss) Attributable to								
Net gain (loss) from continuing operations	(3,242,417)	(265,726)	(308,298)	(330,425)	(705,942)	1,770,222	(25,458)	(233,802)
Net gain (loss) from discontinued operations	(433,536)	(177,543)	(471,564)	(191,663)	3,145	12,741	7,867	5,944
Net earnings (loss)	(3,675,953)	(443,269)	(779,862)	(522,088)	(702,797)	1,782,963	(17,591)	(227,858)
Per share, basic and diluted	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)	0.01	(0.00)	(0.00)

The Company's revenues and earnings fluctuate from quarter to quarter. A number of factors can cause such fluctuations, including the timing of substantial orders, the timing of releases of new products, timing of the deployment of solutions and delays by customers. Because the Company's operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above can cause significant variations in the Company's revenues and earnings in any given quarter. Thus, the Company's quarterly results are not necessarily indicative of the Company's overall business, results of operations and financial condition.

Financial Position

Certain assets and liabilities of VSI, VCI, and VTS were classified as a disposal group held for sale as of June 30, 2015.

Cash and cash equivalents at March 31, 2016 was \$81,568 compared to \$139,190 at March 31, 2015.

The cash used in operating activities amounted to \$184,069 for the three months ended March 31, 2016 compared to \$159,568 for the same period last year.

On October 28, 2014, the Company completed a refinancing of its \$4,500,000 line of credit with a U.S. based financial institution in coordination with the formation of certain wholly owned subsidiary companies. The refinancing consisted of a new term loan to Versatile Acquisition Corporation in the amount of \$1,400,000 with a fixed interest rate of 4.5% that fully matures on October 28, 2017, a new revolving loan that was outstanding to Versatile Credit, Inc. in the amount of \$750,000 (prime plus 1% interest with floor of 4.5%), a new revolving loan that was outstanding to Versatile Technology Services, Inc. in the amount of \$500,000 (prime plus 1% interest with floor of 4.5%), and a new revolving loan that was outstanding to Versatile Mobile Systems, Inc. in the amount of \$1,600,000 (prime plus .5% interest). Each borrower has granted to the lender a lien on all of the assets owned by that borrower. In addition, the revolving loans made to Versatile Credit, Inc., Versatile Technology Services, Inc., and Versatile Mobile Systems, Inc. were cross-defaulted and cross-collateralized, due on demand and scheduled for review on July 6, 2016. The loan made to Versatile Acquisition Corporation is not cross-defaulted with any other debt, and the assets of Versatile Acquisition Corporation do not serve as collateral for any other debt. This refinancing was done immediately prior to the stock sale of the subsidiary as discussed in Note 12 of the unaudited interim condensed consolidated financial statements.

The repayment of the Versatile Acquisition Corporation's (VAC's) \$1,400,000 term loan is to occur through application of the earn-out formula payments from the stock sale (as discussed in Note 12) to the principal balance as required by the counterparty of the debt. Earn-out payments received by VAC to date have been negligible. As such, no corresponding earn-out receivable has been recorded as of March 31, 2016 and the full term loan balance has been classified as long term given management's expectation over anticipated future earn-out payments to be received. The Company remains responsible for the term loan repayment in the absence of adequate earn-out payments being received. VAC does not anticipate further earn-out payments from the counterparty. The long-term balance of the term loan is \$826,314 as of March 31, 2016 and the book value of the term loan approximates its fair value given the stability of the U.S. interest rate market since the loan origination on October 28, 2014.

The Versatile Mobile Systems, Inc. revolving credit line facility is limited to the lesser of \$1,100,000 or 80% of eligible accounts receivable and 50% of eligible inventory of Versatile Mobile Systems, Inc., which amounted to \$2,082,526 at March 31, 2016. The balance of the revolving credit line facility at March 31, 2016 was \$1,080,206.

Financial Position (continued)

The revolving credit line facilities of Versatile Credit, Inc. and Versatile Technology Services, Inc. were transferred out of the Company with the sale of those entities on July 1, 2015.

Certain compliance conditions are required by the financial covenants; however, the counterparty has waived the reporting requirement of the covenant through July 6, 2016.

Deferred Revenue and Prepaid Expenses

The significant component of the prepaid expenses at March 31, 2016 of \$684,220 consists of the current deferred contract costs in the amount of \$645,238. The long term prepaid expenses of \$1,799,285 consist entirely of long-term deferred contract costs. The total deferred revenue and deferred contract costs are:

	<u>Deferred Revenue</u>	<u>Deferred Contract Costs</u>
Current	\$ 825,712	\$ 645,238
Long-term	<u>\$2,003,076</u>	<u>\$1,799,285</u>
Total	\$2,828,788	\$2,444,523

Capital Expenditures

During the three months ended March 31, 2016, the additions to capital assets amounted to \$142 (2015: \$-0-).

Share Capital

As of March 31, 2016, the Company had 196,607,053 common shares issued and outstanding.

Stock Options

The Company can grant up to 19,660,705 of the issued shares pursuant to its stock option plan.

	Number of options	Weighted average exercise price CDN\$
Outstanding – June 30, 2015	3,695,973	0.11
Expired	<u>(3,695,973)</u>	<u>0.11</u>
Outstanding – March 31, 2016	<u>-</u>	<u>-</u>

Off Balance Sheet Arrangements

The Company has not entered into any off balance sheet arrangements other than standard office lease arrangements.

Related Party Transactions

During the three months ended March 31, 2016, the Company paid consulting fees and salaries, which are included in the general and administration expense, of \$54,245 to the directors and officers of the Company.

Risk Factors

The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Management Discussion & Analysis prior to making an investment in the Company. In addition to the other information presented in this Management Discussion & Analysis, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

Going Concern

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. At March 31, 2016, the Company had accumulated losses of \$63,661,658 (2015: \$64,496,375). The Company generated a loss of \$227,858 during the three months ended March 31, 2016 (2015: \$522,088) and had a working capital deficiency of \$3,280,021 at March 31, 2016 (2015: \$3,751,328). These conditions raise material uncertainty that may cast significant doubt as to the ability of the Company to continue operating as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to generate profits from its operations, to obtain financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The Company's continuing operations and its ability to discharge its liabilities and fulfill its commitments as they come due, is dependent upon the continued sales of the Company's products, the ability of the Company to continue to obtain equity and debt financing and, ultimately, attaining profitable operations. Management plans to continue to develop its operations to ensure the Company can generate sustainable, long-term profitability, and obtain additional financing.

Management believes the Company will be successful at securing additional funding, and, with successfully reaching profitable operations to continue as a going concern for the foreseeable future. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

If the Company is unable to obtain adequate funding, the Company would require the restatement of assets and liabilities on a liquidation basis, which would differ significantly from the going concern basis presented.

Risk Factors (continued)

Operating History

The Company's predecessor company commenced operations in March 1987 to distribute and sell Maximizer products in European countries, as well as provide consulting services and Customer Relationship Management (“CRM”) solutions to companies. In January 1997, the Company changed its focus to research and development of CRM software. The Company purchased Versatile Mobile Systems on September 19, 2000, Perfect Order, Inc. and Versatile Systems Inc. on April 26, 2005 and Sagent Solutions on December 28, 2007. In conjunction with a company-wide refinancing and sale of Versatile Systems Inc. – PA, the Company formed the following entities in October 2014: Versatile Technology Services, Inc. and Versatile Credit, Inc., which were both sold on July 1, 2015 (see Note 12 in the unaudited condensed interim financial statements). The Company may face many of the risks and uncertainties encountered by early-stage companies in rapidly evolving markets.

History of Losses

The Company had a history of losses up to September 30, 2005 and since that time has had varying results, but has accumulated losses of \$63,661,658 as of March 31, 2016. Although the Company has decreased some of its operating expenses the Company cannot be assured that it can achieve and maintain profitable operations.

No Certainty of Future Profitability

The Company's product revenues are not predictable with any significant degree of certainty and future product revenues may differ from historical patterns. If customers cancel or delay orders, it can have a material adverse impact on the Company's revenues and results of operations from quarter to quarter. Because the Company's results of operations may fluctuate from quarter to quarter, investors should not assume that results of operations in future periods can be predicted based on results of operations in past periods.

Even though the Company's revenues are difficult to predict, the Company's expense levels are based in part on future revenue projections. Many of the Company's expenses are fixed and, accordingly, the Company cannot quickly reduce spending if revenues are lower than expected.

Competitive Market

The market for the Company's software is intensely competitive, fragmented and rapidly changing. Some of the Company's actual and potential competitors are larger, established companies that have greater technical, financial and marketing resources. In addition, as the Company develops new products, particularly applications focused on electronic commerce or specific industries, it may begin competing with companies with whom it has not previously competed. It is also possible that new competitors will enter the market or that the Company's competitors will form alliances that may enable them to rapidly increase market share.

Risk Factors (continued)

Competitive Market (continued)

Increased competition may result in price reductions, lower gross margins or loss of the Company's market share, any of which could materially adversely affect its business, financial condition and operating results.

Technological Change

The market for the Company's solutions is characterized by rapidly changing technology and evolving industry standards. The market is affected by changes in end user requirements and frequent new product introductions and enhancements. The Company's products embody complex technology and may not always be compatible with current and evolving technical standards and products, developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in the Company's ability to compete. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change, evolving standards or individual wireless communications service provider standards or requirements. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

Limited Sales and Support Infrastructure

The Company's future revenue growth will depend in large part on its ability to successfully expand its direct sales force and its customer support capability. The Company may not be able to successfully manage the expansion of these functions or to recruit and train additional direct sales, consulting and customer support personnel.

If the Company is unable to hire and retain additional highly skilled direct sales personnel, it may not be able to increase its license revenue to the extent necessary to achieve profitability. If the Company is unable to hire highly trained consulting and customer support personnel, it may be unable to meet customer demands. The Company is unlikely to be able to increase its revenues as planned if it fails to expand its direct sales force or its consulting and customer support staff. Even if the Company is successful in expanding its direct sales force and customer support capability, the expansion may not result in revenue growth.

Risk Factors (continued)

Dependence on Business Alliances

A key element of the Company's business strategy is the formation of corporate alliances with leading companies within the mobile computing industry. The Company is currently investing and plans to continue to invest significant resources to develop these relationships. The Company believes that its success in penetrating new markets for its products will depend in part on its ability to maintain these relationships and to cultivate additional or alternative relationships. There can be no assurance that the Company will be able to develop additional corporate alliances with such companies, that existing relationships will continue or be successful in achieving their purposes or that such companies will not form competing arrangements.

Dependence on Key Personnel

The Company's success depends largely upon the continued service of its executive officers and other key management, sales and marketing and technical personnel. The loss of the services of one or more of the Company's executive officers or other key employees could have a material adverse effect on its business, results of operations or financial condition.

The Company's future success also depends on its ability to attract and retain highly qualified personnel. The competition for qualified personnel in the computer software and Internet markets is intense, and the Company may be unable to attract or retain highly qualified personnel in the future. In addition, due to intense competition for qualified employees, it may be necessary for the Company to increase the level of compensation paid to existing and new employees to the degree that operating expenses could be materially increased.

Management of Growth

The Company's future will depend in part on the ability of its officers and other key employees to implement and improve its financial and management controls, reporting systems and procedures on a timely basis and to expand, train and manage its employee workforce. There can be no assurance that the Company will be able to effectively manage such growth. The Company's failure to do so could have a material adverse effect upon the Company's business, prospects, results of operation and financial condition.

Integration of Newly Acquired Businesses or Technology

The Company may expand its operations through acquisitions of additional businesses or technology. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or technology or successfully integrate acquired businesses or technology into the Company without substantial expense, delay or other operational or financial problems. Further, acquisitions may involve a number of additional risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible

assets, some or all of which could have a material adverse effect on the Company's business, financial condition and

Risk Factors (continued)

Integration of Newly Acquired Businesses or Technology (continued)

results of operation. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, financial condition and results of operation.

Potential Fluctuations in Quarterly Financial Results

The Company's quarterly financial results may be affected by the timing of new releases of its products and/or substantial customer orders. The Company's operating expenses are based on anticipated revenue levels in the short term, are relatively fixed, and are incurred throughout the quarter. As a result, if expected revenues are not realized on a timely basis as anticipated, the Company's financial results could be materially and adversely affected. These or other factors, including possible delays in the shipment of new products, may influence quarterly financial results in the future. Accordingly, there may be significant variation in the Company's quarterly financial results.

International Sales

Sales outside of the United States currently represent less than 10% of the Company's total gross revenues. The Company believes that its continued growth and profitability will require additional expansion of its sales in international markets. To the extent that the Company is unable to expand international sales in a timely and cost effective manner, the Company's business, results of operations and financial condition could be materially and adversely affected. In addition, even with the successful recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products.

Currency Exchange Rate Risk

The Company's results have been stated in U.S. dollars as a substantial portion of the Company's revenues and a material portion of its expenses are denominated in US dollars.

Dependence on Proprietary Technology and Limited Patent and Trademark Protection

The Company relies on a combination of copyright and trademark laws, trade secret, confidentiality procedures and contractual provisions to protect its proprietary rights. Unauthorized parties may attempt to copy aspects of the Company's products or obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's product is difficult, time-consuming and costly as is the pursuing of patents in each

jurisdiction in which the Company carries on business. Although the Company is unable to determine the extent to which piracy of its software product exists, software piracy is a possibility. In addition, the laws of certain countries in which the Company's products may be licensed do not protect its product

Risk Factors (continued)

Dependence on Proprietary Technology and Limited Patent and Trademark Protection (continued)

and intellectual property rights to the same extent as the laws do in Canada or the United States. There is no assurance that the Company's means of protecting its proprietary rights will be adequate or the Company's competitors will not independently develop similar technology, the effect of either of which may be materially adverse to the Company's business, results of operations and financial condition.

Risk of Third Party Claims for Infringement

The Company is not aware that its product infringes the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.

Lengthy Sales and Implementation Cycle

The adoption of the Company's product generally involves a significant commitment of resources by potential customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes by potential customers. For these and other reasons, the sales cycle associated with the license of the Company's product varies substantially from customer to customer and typically lasts between 6 to 12 months during which time the Company may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies, and experience a number of significant delays over which the Company has no control. Any significant or ongoing failure by the Company to ultimately achieve such sales could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, following license sales, the implementation period is expected to involve a time period for customer training and integration with the customer's existing systems. A successful implementation program requires a close working relationship between the Company, the customer and, generally, third party consultants and system integrators who assist in the process. There can be no assurance that delays or difficulties in the implementation process for any given

customer will not have a material adverse effect on the Company's business, results of operations and financial condition.

Risk Factors (continued)

Risk of System Defects

System development involves the integration of the Company's proprietary software and software of others into the customer's operating systems. There can be no assurance that defects and errors will not be found in the Company's product when integrated with other products or systems. Any such defects and errors could result in adverse customer reactions, negative publicity regarding the Company and its product or damages. Consequently, there could be a material adverse effect on the Company's business, results of operations and financial condition.

Requirements for New Capital

As a growing business, the Company typically needs more capital than it has available to it or can expect to generate through the sale of its products. In the past, the Company has had to raise, by way of debt and equity financing, considerable funds to meet its capital needs. There is no guarantee that the Company will be able to continue to raise funds needed for its business. Failure to raise the necessary funds in a timely fashion will limit the Company's growth.

Critical Accounting Estimates

General

Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events, or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the circumstances identified above.

Changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions and updating of historical information used to develop the assumptions, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or within a valid range of estimates, from which the recorded estimate was selected.

All critical accounting estimates are uncertain at the time of making the estimate.

Critical Accounting Estimates (continued)

Accounts Receivable

Allowance for doubtful accounts.

The Company considers the business area that gives rise to the accounts receivable, maintains procedures for granting credit terms on sales transactions and performs specific account identification when determining its allowance for doubtful accounts. This accounting estimate is in respect of the accounts receivable line item on the Company's consolidated Statement of Financial Position comprising approximately 37.6% of total assets as of March 31, 2016. In the event the future results were to adversely differ from management's best estimate of the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge would not result in a cash outflow.

The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues and from variances in accounts receivable collection performance.

Inventories

Provision for inventory obsolescence

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings.

Assumptions underlying the provision for inventory obsolescence include the activity levels over previous fiscal years, and the expected inventory requirements and inventory composition necessary to support these future sales and offerings. The estimate of the Company's provision for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.

This accounting estimate is in respect of the inventory line item on the Company's consolidated Statement of Financial Position comprising approximately 13.7% of total assets as of March 31, 2016. If the provision for inventory obsolescence was inadequate, the Company could experience a charge to direct cost of sales in the future. Such an inventory obsolescence charge would not result in a cash outflow.

Long-Lived Assets

The accounting estimates for long-lived assets that include capital assets, prepaid expenses consisting of deferred service contracts, purchased technology, intellectual property, customer contracts and licenses, in aggregate, represent approximately 34.1% of the Company's total

assets as of March 31, 2016, presented in its consolidated Statement of Financial Position. If the Company's estimated useful lives of assets were different as a result of changes in facts and circumstances, the Company could experience increased or decreased charges for amortization and the Company could potentially experience future material impairment charges in respect of its recovery of long-lived assets.

Critical Accounting Estimates (continued)

Long-Lived Assets (continued)

The estimated useful lives of capital assets are determined by a continuing program of asset life studies. The recoverability of capital assets is significantly impacted by the estimated useful lives. Assumptions underlying the estimated useful lives of capital assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans. In the event management's best estimate of the useful lives of capital assets was adversely affected, the Company could potentially experience a charge to amortization expense in the future. Such a charge to amortization would not result in a cash outflow.

The purchased technology, intellectual property, customer contracts and licenses were fully amortized on or before the 2010 fiscal year.

Adoption of future accounting standards

The following amendments and new standards are effective for the first time for periods beginning on or after July 1, 2014, and have been adopted in these financial statements. The nature and effect of the new interpretations and amendments adopted by the Company are detailed below.

The following is a description of the new or amended standards:

IAS 32 - "Financial Instruments: Presentation" ("IAS 32")

Amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. These amendments are effective for annual periods beginning after January 1, 2014. The amendment did not result in any effect on the Company's unaudited interim condensed consolidated financial statements.

IAS 36 - "Impairment of Assets" ("IAS 36")

This amendment on the recoverable amount disclosures for non-financial assets removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13, Fair Value Measurement ("IFRS 13"). The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs to sell. The amendment did not result in any effect on the Company's unaudited interim condensed consolidated financial statements.

Adoption of future accounting standards (continued)

IAS 24 - “Related Party Disclosures” (“IAS 24”)

The amendments to IAS 24 clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendment did not result in any effect on the Company’s unaudited interim condensed consolidated financial statements.

IFRIC 21 - “Levies” (“IFRIC 21”)

IFRIC 21 provides guidance on the accounting for a liability to pay a levy, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”) and those where the timing and amount of the levy is certain. Levies are imposed by a government in accordance with legislation and do not include income taxes, fines or other penalties imposed for breaches of legislation. IFRIC 21 defines an obligating event as the legislatively identified activity that triggers the payment of the levy. Recognition of a liability to pay a levy is at the date of the obligating event. The fact that the Company is economically compelled to continue to operate in the future does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate. The Company’s adoption of IFRIC 21 did not materially affect the Company’s financial performance or its financial position.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement (“IFRS 13”). The amendment to IFRS 13 is effective immediately and, thus, for periods beginning on July 1, 2014, and it clarifies in the basis for conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 had no impact on the Company’s financial statements. Other standards, amendments and interpretations which are effective for the financial year beginning on July 1, 2014 are not material to the Company.

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in the financials, will or may have an effect on the Company’s future financial statements.

Adoption of future accounting standards (continued)

IFRS 9 - “Financial Instruments” (“IFRS 9”)

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 Financial Instruments – Recognition and measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss). These amendments are effective for annual periods beginning after January 1, 2018. The Company has not yet assessed the impact of the adoption of IFRS 9 on its financial performance or its financial position.

IFRS 15 - “Revenue from Contracts with Customers” (“IFRS 15”)

IFRS 15 establishes the principles to report the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is evaluating any potential impact of this standard.

Pursuant to the requirements of National Instrument Policy 51-102F1 the Company is providing selected annual information as set forth in Section 1.3 of that Policy.