# Memex Inc.

## Consolidated Financial Statements

### For the years ended September 30, 2020 and 2019

MEMEX
Measuring Manufacturing Excellence™

# MEMEX INC.

Consolidated Financial Statements
For the years ended September 30, 2020 and 2019

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Independent Auditor's Report

To the Shareholders of Memex Inc.

**Opinion**

We have audited the consolidated financial statements of Memex Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' deficiency and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

**Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material uncertainty related to going concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended September 30, 2020 and, as of that date, the Company's current liabilities exceeded its current assets. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we

are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Chris Milios.

**McGovern Hurley LLP**

McGovern Hurley LLP

**Chartered Professional Accountants**
**Licensed Public Accountants**

Toronto, Ontario
January 12, 2021

## MEMEX INC.
### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars)

| As at | | September 30, 2020 | September 30, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| *Current Assets* | | | |
| Cash | | $ 548,597 | $ 739,608 |
| Trade and other receivables | Notes 4 & 16 | 381,233 | 834,304 |
| Inventory | Note 5 | 176,102 | 270,821 |
| Prepaid expenses | | 34,364 | 55,794 |
| | | 1,140,296 | 1,900,527 |
| *Property and equipment* | Note 6 | 67,712 | 85,773 |
| *Intangible assets* | Note 7 | 161,959 | 202,449 |
| *Right-of-use asset* | Note 8 | 321,644 | - |
| | | $ 1,691,611 | $ 2,188,749 |
| **LIABILITIES** | | | |
| *Current Liabilities* | | | |
| Accounts payable and accrued liabilities | Note 9 | $ 180,427 | $ 338,656 |
| Unearned revenue | Note 10 | 1,047,069 | 963,020 |
| Current portion of long-term and lease liabilities | Note 11 & 12 | 179,747 | 243,000 |
| | | 1,407,243 | 1,544,676 |
| *Long-term liabilities* | Notes 11 & 16 | 1,135,525 | 1,109,329 |
| *Lease liability* | Note 12 | 316,520 | - |
| | | 2,859,288 | 2,654,005 |
| **SHAREHOLDERS' DEFICIENCY** | Note 13 | | |
| Share Capital | | 12,430,558 | 12,405,566 |
| Warrants | | 58,783 | 58,783 |
| Stock-based compensation reserve | | 383,530 | 563,406 |
| Contributed surplus | | 2,267,311 | 2,065,809 |
| Deficit | | (16,307,859) | (15,558,820) |
| | | (1,167,677) | (465,256) |
| | | $ 1,691,611 | $ 2,188,749 |

Nature of business and going concern Note 1
Contractual obligations Note 14

**APPROVED BY THE BOARD:**

(signed) "David McPhail" Director

(signed) "Joe Brennan" Director

# MEMEX INC.
## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Canadian dollars)

| For the years ended | | September 30, 2020 | September 30, 2019 |
|---|---|---|---|
| *Revenue* | Note 20 | $ 2,251,677 | $ 3,250,583 |
| *Cost of sales* | Note 21 | | |
| Materials, assembly, installation | | 181,240 | 405,831 |
| Customer service | | 350,258 | 540,151 |
| | | 531,498 | 945,982 |
| *Gross margin* | | 1,720,179 | 2,304,601 |
| *Operating expenses* | Notes 13, 16 & 21 | | |
| Development | | 510,173 | 771,467 |
| Selling and marketing | | 1,037,082 | 1,481,421 |
| Administration | | 815,551 | 1,015,838 |
| Gain on foreign exchange | | (9,825) | (8,364) |
| | | 2,352,981 | 3,260,362 |
| *Loss from operations* | | (632,802) | (955,761) |
| Interest and accretion | Notes 11 & 12 | (116,237) | (116,113) |
| *Net and comprehensive loss for the year* | | $ (749,039) | $ (1,071,874) |
| *Basic and diluted loss per share* | Note 19 | $ (0.006) | $ (0.008) |

# MEMEX INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars)

| For the years ended | | September 30, 2020 | September 30, 2019 |
|---|---|---|---|
| *Operating activities:* | | | |
| Net and comprehensive loss for the year | | $ (749,039) | $ (1,071,874) |
| Items not affecting cash from operations: | | | |
| Depreciation and amortization | | 130,158 | 69,059 |
| Present value discount of interest-free loans | | (88,402) | - |
| Accretion of interest-free loans | | 85,728 | 60,399 |
| Stock-based compensation | | 21,626 | 120,567 |
| | | (599,929) | (821,849) |
| Changes in non-cash working capital balances | Note 22 | 553,693 | (88,121) |
| Cash flows from operating activities | | (46,236) | (909,970) |
| *Investing activities:* | | | |
| Additions to property, equipment, intangible assets | | (3,891) | (1,871) |
| Cash flows from investing activities | | (3,891) | (1,871) |
| *Financing activities:* | | | |
| Repayment of FedDev Ontario (IBI) | | (84,000) | (96,000) |
| Borowing from FedDev Ontario (RRRF) | | 101,660 | - |
| (Repayment) funding - G&G Private Capital | | (105,000) | 700,000 |
| G&G financing costs | | - | (50,208) |
| Lease payments | | (46,044) | - |
| (Decrease) increase in related party advances | | (7,500) | 50,000 |
| Cash flows from financing activities | | (140,884) | 603,792 |
| *Net decrease in cash* | | (191,011) | (308,049) |
| Cash, beginning of year | | 739,608 | 1,047,657 |
| *Cash, end of year* | | $ 548,597 | $ 739,608 |

Supplemental information Note 22

**MEMEX INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**
(Canadian dollars)

| | Share Capital | | Warrants | Stock based compensation reserve | Contributed surplus | Deficit | Shareholders' Deficiency |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | | | | | |
| Balance, October 1, 2018 | 134,156,883 | $ 12,405,566 | $ 684,598 | $ 506,857 | $ 1,317,193 | $ (14,486,946) | $ 427,268 |
| Issuance of options | - | - | - | 120,567 | - | - | 120,567 |
| Options expired | - | - | - | (64,018) | 64,018 | - | - |
| Warrants issued | - | - | 58,783 | - | - | - | 58,783 |
| Warrants expired | - | - | (684,598) | | 684,598 | - | - |
| Net and comprehensive loss for the year | - | - | - | - | - | (1,071,874) | (1,071,874) |
| *Balance, September 30, 2019* | 134,156,883 | $ 12,405,566 | $ 58,783 | $ 563,406 | $ 2,065,809 | $ (15,558,820) | $ (465,256) |
| *Balance, October 1, 2019* | 134,156,883 | $ 12,405,566 | $ 58,783 | $ 563,406 | $ 2,065,809 | $ (15,558,820) | $ (465,256) |
| Issuance of options | - | - | - | 21,626 | - | - | 21,626 |
| Options expired | - | - | - | (201,502) | 201,502 | - | - |
| Shares issued during the year | 1,666,112 | 24,992 | - | - | - | - | 24,992 |
| Net and comprehensive loss for the year | - | - | - | - | - | (749,039) | (749,039) |
| **Balance, September 30, 2020** | 135,822,995 | $ 12,430,558 | $ 58,783 | $ 383,530 | $ 2,267,311 | $ (16,307,859) | $ (1,167,677) |

Supplemental information Note 13

## 1. Nature of business and going concern

Memex Inc. (the "Company") was incorporated under the Alberta Business Corporations Act ("ABCA") on July 15, 2011. On July 20, 2015, the Company changed its name from Astrix Networks Inc. to Memex Inc. ("Memex"). The Company is a reporting issuer in Ontario, British Columbia, Alberta and Saskatchewan.

The Company is technology based and operates from its rented facilities in Burlington, Ontario. It develops, commercializes and manufactures a suite of products for its customers in the discrete manufacturing and aerospace sectors worldwide. The Company's registered office is located at 1400, 350 – 7th Avenue SW, Calgary, Alberta, T2P 3N9 and its head office is located at 880 Laurentian Drive – Unit 2, Burlington, Ontario L7N 3V6. The common shares (the "Common Shares" or "Shares") of the Company trade on the TSX Venture Exchange under the symbol "OEE".

These consolidated financial statements incorporate the results of Memex Inc. and all its subsidiary undertakings, made up to September 30, 2020, adjusted to eliminate intra-group balances, transactions, income and expenses. The group has used the acquisition method of accounting to consolidate the results of subsidiary undertakings, which are included from the date of acquisition.

These consolidated financial statements were approved and authorized for issue by management and the Board of Directors on January 12, 2021.

These consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern which assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has incurred losses and negative operating cash flows since its inception. As of September 30, 2020, the Company has an accumulated deficit of \$16,307,859 (2019 - \$15,558,820), cash consumed from operations of \$46,236 (2019 – \$909,970) and working capital deficiency of \$266,947 (2019 – working capital of \$355,851). Given its current working capital position and the potential for further losses in future, the Company may not be able to meet its financial obligations and sustain its operations in the normal course of business, all of which cast significant doubt and material uncertainty about the Company's ability to continue as a going concern.

While the Company has been successful in raising sufficient funding in the past, there can be no assurance it will be able to do so in the future. If the Company fails to execute its business plan, is unable to raise additional funding and is unable to continue as a going concern, significant adjustments would likely be required to the carrying values of the assets and liabilities, reported expenses and balance sheet classifications of these consolidated financial statements. These adjustments could be material.

*COVID-19 Pandemic*
The Company's future operations could be significantly adversely affected by the effects of COVID-19 ("COVID-19 or the "Pandemic"). The Company cannot accurately predict the future impact COVID-19 will have on its operations or the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, or the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, COVID-19 could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

Since March 31, 2020, the Company has seen a decline in new and recurring business orders from the same periods in the prior year, which is believed to be a direct result of the Pandemic. The Company has also experienced customer postponement of installation and delivery of orders until the health risks associated with COVID-19 decline. The Company continues to apply for government financial support initiatives that it believes it is eligible for.

## 2. Summary of significant accounting policies, basis of preparation and statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated. The results have been prepared on the basis of all IFRS and IFRIC issued by the IASB currently effective.

The preparation of consolidated financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and revisions are recognized in the year in which the estimate or assumption is revised.

The consolidated financial statements have been prepared under the historical cost convention and are presented in Canadian dollars.

### (a) Property and equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Depreciation is recognized in the consolidated statement of operations and is provided on a declining-balance basis over the estimated useful life of the assets as follows:

| | |
|---|---|
| Furniture and equipment | 20% |
| Computer hardware | 30% |

### (b) Intangible assets

Intangible assets include computer software which is not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 5 years.

Intangible assets also include development costs (net of research and development grants) that satisfy the criteria of IAS 38 for recognition as an intangible asset. Development costs are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. All intellectual property currently being utilized is estimated to have a remaining useful life of 10 years and is being amortized over that time on a straight-line basis.

Amortization expense is included within operating expenses in the consolidated statement of operations and comprehensive loss.

### (c) Impairment

#### (i) Financial assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

#### (ii) Non-financial assets

Property, equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash flows Cash Generating Units ("CGUs").

The recoverable amount of an asset or CGUs is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying value of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

### (d) Valuation of inventory

Inventory has been valued at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method. Cost for any work in progress includes the carrying value of all parts and components assembled.

### (e) Foreign currency translation

The Company's presentation and functional currency is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognized in operations.

### (f) Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting year and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting year. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Company intends to settle on a net basis; or to realize the asset and settle the liability simultaneously.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting year end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

### (g) Revenue recognition

The Company enters into revenue arrangements that may consist of multiple deliverables ("multiple-element arrangements") of software licensing, hardware, support service and installation. Except for software subscriptions and version upgrade rights, which are recognized over the periods to which the rights relate, revenue from arrangements involving multiple deliverables is recognized when collection is probable, and all elements have been delivered/completed. Revenue is allocated to each respective element based on its fair value.

The Company often requires a 40% deposit on multi-element arrangements as well as some contractual situations. Any deposits received are initially recorded as unearned revenue.

#### (i) Software licensing

The Company's software licensing revenue reflects sales to its clients primarily on a perpetual basis, where the customer receives an indefinite future right to use the software provided in accordance with the Company's terms of use. Unless the sale is part of a multiple-element arrangement, revenue from perpetual license sales is recognized once the software has been installed on client equipment, the amount of revenue can reliably be measured, and collection is reasonably certain. Software licensing revenue also includes software version upgrade rights, which are charged to licensed users annually and recognized as revenue after collection over the periods to which the upgrade rights relate. Amounts collected prior to being earned are recorded as unearned revenue.

Software licensing revenue also includes the sale of ongoing licensing rights, where the client maintains the right to use the software as long as they pay their periodic licensing fee. Revenue from the sale of ongoing licensing rights is recognized over the periods to which the licensing rights relate.

#### (ii) Hardware

Unless part of a multiple-element arrangement, revenue from the sale of hardware products is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable, and collection is probable. Hardware is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company's hardware sales, these criteria are met at the time the product is shipped.

#### (iii) Support services and installation

Unless part of a multiple-element arrangement, revenue from support services is recognized after the service has been provided and collection is probable. In instances where the Company invoices the client prior to performing support service, the prebilling is recorded as unearned revenue. Support revenue also includes the recognition of previously deferred revenue related to multi-element arrangements for installation, configuration and support.

### (h) Financial instruments

The Company's accounting policy for each class of financial instruments is in accordance IFRS 9, Financial Instruments, as follows:

#### (i) Financial assets

##### 1. Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either fair value through profit and loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"), and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVTPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVTPL or at amortized cost. Trade and other receivables held for collection of contractual cash flows are measured at amortized cost.

2. Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of operations and comprehensive loss.

3. Subsequent measurement – financial assets at FVTPL

Financial assets measured at FVTPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVTPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of operations and comprehensive loss. The Company does not measure any financial assets at FVTPL.

4. Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of operations and comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

5. Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when the Company has transferred substantially all the risk and rewards of ownership of the assets. Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Company derecognizes the transferred asset only if it no longer controls the asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Company retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized in full, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received, including any new assets and/or liabilities recognized

(ii) Financial liabilities

1. Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVTPL. The Company's financial liabilities include accounts payable and accrued liabilities and long-term liabilities, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

2. Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of operations and comprehensive loss.

3. Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of operations and comprehensive loss.

### (i) Leases

On January 1, 2019, the IASB issued IFRS 16, Leases ("IFRS 16"), which supersedes IAS 17, Leases. The Company adopted the new standard as of its effective date, on October 1, 2019, on a modified retrospective basis whereby comparative information has not been adjusted.

(Canadian dollars)

The Company has applied the following practical expedients:

- On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, and IFRIC 4, determining whether an arrangement contains a lease, were not reassessed for whether there is a lease. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after October 1, 2019;
- Account for leases with a remaining term of less than 12 months as at October 1, 2019 as short-term lease
- Account for lease payments as an expense and not recognizing a right-of-use asset ("ROU") if the underlying asset is of low dollar value; and
- Use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease;
- The Company has elected not to record depreciation of the ROU assets prior to the date of initial application.
- The Company has elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

On adoption of IFRS 16, the Company's leases are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The weighted average incremental borrowing rate used to determine the lease liability at adoption was approximately 9%. A ROU asset and lease liability was recognized related to office premises.

The following table reconciles operating lease commitment as at September 30, 2019 to the lease liability and ROU asset recognized in the consolidated statement of financial position as at October 1, 2019:

| | |
|---|---|
| Operating lease commitments disclosed as at September 30, 2019 | $ 994,526 |
| Variable lease payments excluded in accordance with IFRS 16 | (437,850) |
| Effect from discounting | (133,655) |
| Lease obligation at October 1, 2019 | $ 423,021 |
| Add: fixed lease payment made before and on October 1, 2019 | 8,242 |
| Less: accrued lease payments | (41,903) |
| ROU asset at October 1, 2019 | $ 389,360 |

On May 28, 2020, the IASB issued amendments to IFRS 16, which provide relief for lessees in accounting for rent concessions granted as a direct consequence of COVID-19 assuming they meet certain criteria. These amendments are mandatory for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at May 28, 2020. The Company has early adopted these amendments as permitted. The Company has applied the practical expedient to not assess whether a rent concession occurring as a direct consequence of the Covid-19 pandemic is a lease modification.

During the year ended September 30, 2020, the Company re-negotiated its only non-cancellable office lease to defer a portion of lease payments originally due on or before June 30, 2021 as a result of the Covid-19 pandemic with no substantive change to other terms and conditions of the lease. The rent concession qualified for the practical expedient and, as a result, the Company accounted for the change in lease payments that arise from Covid-19-related concessions in the same way as if the change was not a lease modification but instead as variable lease payments not dependent on an index or a rate. On May 4, 2020, the effective date of the rent concessions, the Company re-measured the carrying amount of lease liability using the unchanged discount rate of 9%. The change in the carrying amount of lease liability immediately prior to and after the effective date was determined negligible and recognized in profit or loss.

### (i) Leases before October 1, 2019 (IAS 17)

#### 1. Finance lease — lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### 2. Operating lease — lessee

Operating lease payments are recognized as administration expenses in the consolidated statements of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term and include renewal terms when it is reasonably certain that the option will be exercised. Contingent rentals arising under operating leases are recognized as an expense in the year in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(ii) Leases as at October 1, 2019 (IFRS 16)

1. Lessee

A contract is a lease (or may contain a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding ROU asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Amortization is recognized on the ROU asset over the lesser of the lease term and the asset's useful life. The lease liability is subsequently measured at amortized cost using the effective interest method. The Company has elected not to recognize ROU assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(j) Share-based payments and warrants

Where equity-settled share options are awarded to employees and consultants, the fair value of the options at the date of grant is charged to the statement of operations and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations and comprehensive loss over the remaining vesting period. When stock options and warrants are granted by Memex, the corresponding increase is recorded to share based payment reserve and when granted by a subsidiary the corresponding increase is recorded to non-controlling interest and classified as options and warrants.

The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of options that will eventually vest. The number of forfeitures likely to occur is estimated on the grant date.

Where equity instruments are granted to employees, they are recorded at the fair value at the grant date. The grant date fair value is recognized in operations and comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the transaction is measured at the fair value of the equity instrument granted.

All equity-settled share-based payments are reflected in share-based payment reserve, until exercised. Upon exercise, the shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital for any consideration paid.

Where cash-settled share-based payments are granted, the goods or services acquired, and the liability incurred is measured at the fair value of the liability. Until the liability is settled, the fair value is re-measured at the end of each reporting period and at the date of settlement, by applying an option pricing model, with any changes in fair value recognized in profit or loss for the period. The measurement of the liability takes into account, the terms and conditions on which the share appreciation rights were granted and to the extent to which the employees or consultants have rendered service to the date of measurement. Unexercised expired options and warrants are transferred to deficit.

(k) Earnings (Loss) per Share

Basic income (loss) per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted income (loss) per share is calculated by assuming that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options and warrants that would decrease income (loss) per share or increase income per share. Options and warrants have a dilutive effect only when the average market price of the shares exceeds the exercise price of the options or warrants. The diluted income per share is the same as basic loss per share for the years ended September 30, 2020 and 2019 as the effects of including all outstanding options and warrants would be anti-dilutive.

### (l) Government grants

Government grants are recognized only once there is reasonable assurance that the Company will be able to comply with any conditions attached to the grant and that the grant will be received. Grants are recognized as either income over the period(s) necessary to match them with the related costs or if related to a specific expense, as a reduction or contra to the expenses for which they are intended to compensate, on a systematic basis. Grants receivable for costs already incurred or for immediate financial support, with no future related costs, are recognized as income in the period in which the grant is receivable.

If a grant becomes repayable, it is treated as a change in estimate. Where the original grant related to income, the repayment would be applied first against any related unamortized deferred credit, and any excess would be expensed. Where the original grant related to an asset, the repayment would be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received would be charged as an expense.

### (m) Sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. Differences in estimates and assumptions could have a significant impact on these consolidated financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Significant accounts that require estimates are as follows:

#### (i) Impairment of long-lived assets

In assessing impairment, management estimates the recoverable amount of each asset or CGU based on expected future cash flows. Estimation uncertainty relates to assumptions about future operating results.

#### (ii) Useful lives of depreciable assets

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utilization of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain assets.

#### (iii) Inventories

The Company estimates the net realizable values of inventories, considering the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

#### (iv) Expected credit loss

The Company provides for loss allowance using a forward-looking expected credit loss approach.

Loss allowances are measured based on the lifetime expected credits losses (“ECLs”). When determining whether the credit risk of a financial asset has increased significantly since initial recognition and then estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on historical experience and forward-looking information. The Company considers a financial asset to be in default when the customer is highly unlikely to pay its obligation in full.

#### (v) Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company is also subject to tax regulations as they relate to flow-through financing arrangements. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

#### (vi) Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. The assumptions and models used for estimating fair value for share-based payment transactions is disclosed in Note 13. The expected volatility assumptions for Memex option and warrant grants was based on the historical volatility of Memex shares.

(Canadian dollars)

(n) Standards, amendments and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first year beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

(i) IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

## 3. Investments - Shares in subsidiary undertakings

The Company owns all of the outstanding shares of Memex Automation Inc. and Astrix Networks America Inc., whose results have been consolidated in these financial statements.

## 4. Trade and other receivables

| *As at September 30* | 2020 | 2019 |
|---|---|---|
| Current | $ 187,733 | $ 473,647 |
| Over 30 days | 6,915 | 62,506 |
| Over 60 days | 12,750 | 17,845 |
| Over 90 days | 40,613 | 273,807 |
| | $ 248,011 | $ 827,805 |
| Other receivables | 133,222 | 6,499 |
| | $ 381,233 | $ 834,304 |

## 5. Inventory

| *As at September 30* | 2020 | 2019 |
|---|---|---|
| Finished goods and component parts | $ 153,331 | $ 181,499 |
| Work-in-process | 30,438 | 98,397 |
| Less: provision for slow moving and obsolete | (7,667) | (9,075) |
| | $ 176,102 | $ 270,821 |

There is no material difference between the replacement cost of inventories and the amounts stated above.

(Canadian dollars)

## 6. Property and equipment

| | Furniture and Equipment | Computer Hardware | Total |
|---|---|---|---|
| *Cost* | | | |
| Balance at October 1, 2018 | $ 147,494 | $ 176,328 | $ 323,822 |
| Additions | - | 1,871 | 1,871 |
| Balance at September 30, 2019 | $ 147,494 | $ 178,199 | $ 325,693 |
| Additions | - | 3,891 | 3,891 |
| Balance at September 30, 2020 | $ 147,494 | $ 182,090 | $ 329,584 |
| *Accumulated depreciation* | | | |
| Balance at October 1, 2018 | $ 92,952 | $ 118,399 | $ 211,351 |
| Depreciation expense | 10,909 | 17,660 | 28,569 |
| Balance September 30, 2019 | $ 103,861 | $ 136,059 | $ 239,920 |
| Depreciation expense | 8,726 | 13,226 | 21,952 |
| Balance at September 30, 2020 | $ 112,587 | $ 149,285 | $ 261,872 |
| *Carrying amounts* | | | |
| As at September 30, 2019 | $ 43,633 | $ 42,140 | $ 85,773 |
| As at September 30, 2020 | $ 34,907 | $ 32,805 | $ 67,712 |

## 7. Intangible assets

| | Computer Software | Development Costs | Total |
|---|---|---|---|
| *Cost* | | | |
| Balance at October 1, 2018, September 30, 2019 and September 30, 2020 | $ 93,625 | $ 520,471 | $ 614,096 |
| *Accumulated amortization* | | | |
| Balance at October 1, 2018 | $ 93,625 | $ 277,532 | $ 371,157 |
| Amortization expense | - | 40,490 | 40,490 |
| Balance September 30, 2019 | $ 93,625 | $ 318,022 | $ 411,647 |
| Amortization expense | - | 40,490 | 40,490 |
| Balance at September 30, 2020 | $ 93,625 | $ 358,512 | $ 452,137 |
| *Carrying amounts* | | | |
| As at September 30, 2019 | $ - | $ 202,449 | $ 202,449 |
| As at September 30, 2020 | $ - | $ 161,959 | $ 161,959 |

## 8. Right-of-use asset

| *As at September 30* | 2020 | 2019 |
|---|---|---|
| Balance – beginning of year | $ - | $ - |
| Additions | 389,360 | - |
| Amortization | (67,716) | - |
| Balance – end of year | $ 321,644 | $ - |

## 9. Accounts payable and accrued liabilities

| *As at September 30* | 2020 | 2019 |
|---|---|---|
| Trade payables | $ 146,056 | $ 292,628 |
| Government remittances | 34,371 | 46,028 |
| | $ 180,427 | $ 338,656 |

(Canadian dollars)

## 10. Unearned revenue

| *As at September 30* | 2020 | 2019 |
|---|---|---|
| Undelivered projects | $ 538,681 | $ 472,242 |
| Prepaid client services | 173,308 | 189,180 |
| Future software rights | 335,080 | 301,598 |
| | $ 1,047,069 | $ 963,020 |

Unearned revenue primarily relates to deposits received from clients on multi-element delivery arrangements, prepaid client services and the unearned portion of customers rights to future software use and upgrades.

Of the $963,020 (2018 - $717,482) in unearned revenue reported as at September 30, 2019, $816,144 (2019 - $604,787) was recognized as revenue during the year ended September 30, 2020.

## 11. Long-term liabilities

| *As at September 30* | 2020 | 2019 |
|---|---|---|
| IBI term loan (a) | $ 465,109 | $ 563,503 |
| G&G Private Capital (b) | 570,219 | 654,004 |
| RRRF term loan (c) | 70,568 | - |
| Company Officers – G&G congruent (d) | 40,730 | 46,717 |
| Company Officers – deferred remuneration (e) | 138,313 | 138,313 |
| | $ 1,284,939 | $ 1,402,537 |
| Less: deferred financing fees | (30,124) | (50,208) |
| | $ 1,254,815 | $ 1,352,329 |
| Allocated: | | |
| Current portion | $ 119,290 | $ 243,000 |
| Long-term portion | 1,135,525 | 1,109,329 |
| | $ 1,254,815 | $ 1,352,329 |

### (a) IBI term loan

On March 19, 2015, the Company qualified for $800,000 in Government of Canada funding in the form of non-interest bearing, fixed repayment-term advances, through FedDev Ontario's Investing in Business Innovation ("IBI") initiative. The Company received these advances between October 2014 and December 2016.

The loan is valued at the present value of anticipated future repayments of the funds advanced at each reporting date using a discount rate of 9%. Repayment of all advances received commenced October 2017.

As a direct consequence of the COVID-19 Pandemic, on June 12, 2020 the lender and Company agreed to a revised repayment schedule which extends repayment requirements until November 2024 and require no repayments until October 2020. The modification of loan resulted in a substantial change in the carrying amount of loan and, therefore, it was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The new financial liability was valued on June 12, 2020 using the revised future repayment required and a new discount rate of 9% effective on the modification date. The difference between the carrying amount of original financial liability and the new financial liability of $57,310 was recognized in profit and loss. The Company also recognized 32,998 in interest accretion expense on this loan (2019 - $38,539).

### (b) G&G Private Capital

On March 28, 2019, the Company entered into an agreement with affiliates of G&G Private Capital ("G&G"), which provided the Company with a $700,000 loan facility (the "Loan"). The Loan bears interest at Royal Bank Prime ("RBP") rate plus 8%, plus a 1.5% financing fee as amounts are advanced. No principal repayments were required in the first twelve months, and 5% of all amounts borrowed became repayable quarterly commencing March 2020. The Loan matures March 2022 and is secured by a general security (a "GSA") over all Company assets. The loan is valued at the present value of anticipated future repayments using a discount rate of 16%.

As a condition of the Loan, G&G required Company Officers (collectively the "Lenders") to advance the Company $50,000 under identical lending terms and conditions, disclosed below, and also made on March 28, 2019.

In addition to interest and a financing fees, the Lenders were issued a total of 3,750,000 Warrants (3,500,000 to affiliates of G&G and 250,000 to Company Officers) exercisable at $0.05 as described in warrants transactions. All Warrants issued under the terms of the Loan Agreement expire at the maturity of the Loan.

(Canadian dollars)

The Company has paid a total of $81,347 in interest to G&G during the year ended September 30, 2020 (2019 - $42,627). A total of $23,326 of the current year's interest was settled through the issuance of 1,555,038 Common Shares of the Company.

### (c) RRRF term loan

As part of the Canadian government's initiatives to support businesses affected by the COVID-19 pandemic, on July 22, 2020 the Company executed an agreement with the Federal Economic Development Agency ("FedDev") for Southern Ontario to receive an interest-free Regional Relief and Recovery Fund ("RRRF") Loan of up to $127,075. On July 28, 2020, the Company received $101,660 (80%) of the approved loan with the balance to become available once the Company provides evidence the initial amount funded has been appropriately spent. The repayment of funds advanced will commence January 2023 with the loan to be repaid December 2026.

The loan is valued at the present value of anticipated future repayments of the funds advanced at each reporting date using a discount rate of 9%. The Company recognized a $31,092 present value discount during the year.

### (d) Company Officers – G&G congruent

Congruent with, and as a condition of G&G Loan , the Company's CEO (through a controlled corporation) and CFO collectively agreed to loan the Company $50,000 under the same terms and conditions as the G&G Loan, including interest rate, financing fees, repayment terms, security and entitlement to Company Warrants. The Company Officers' advances have been valued at the present value of anticipated future repayments using the same 16% discount rate as the G&G Loan.

The Company has paid a total of $5,810 in interest to the CEO and CFO in conjunction with the G&G loan during the period ended September 30, 2020 (2019 - $3,045). A total of $1,666 of the current year's interest was settled through the issuance of 111,074 Common Shares of the Company.

### (e) Company Officers – deferred remuneration

The Company's CEO as well as another Company employee agreed to postpone receipt of their remuneration from prior periods. Subsequent to the postponement they further agreed to restrictions over payment of their remuneration such that any funds used for repayment would be derived from Company profits. They also agreed to postpone settlement in favour of FedDev Ontario as a condition of the Company's participation in IBI funding. Of the outstanding balance at September 30, 2020, the CEO's deferred remuneration was $86,543, unchanged from September 30, 2019.

### (f) Principal repayments

Principal repayments, assuming no prepayments, are scheduled to be repaid as follows for the years ended *September 30*:

| | |
|---|---|
| 2021 | $ 204,000 |
| 2022 | 592,500 |
| 2023 | 184,062 |
| 2024 | 250,416 |
| 2025 and beyond | 92,186 |
| | $ 1,323,164 |
| Add : deferred remuneration | 138,313 |
| Less: deferred financing fees | (30,124) |
| Less: accretion expense | (176,538) |
| | $ 1,254,815 |

## 12. Lease liability

| *As at September 30* | 2020 | 2019 |
|---|---|---|
| Balance - beginning of year | $ - | $ - |
| Additions | 423,021 | - |
| Interest expensed | 31,755 | - |
| Lease payments | (77,799) | - |
| Balance - end of year | $ 376,977 | $ - |
| Current portion | (60,457) | - |
| | $ 316,520 | $ - |

(Canadian dollars)

The following reconciles the undiscounted lease payments to the lease liability:

| Undiscounted payments by year ended September 30 | |
|---|---|
| 2021 | $ 90,720 |
| 2022 | 93,387 |
| 2023 | 101,988 |
| 2024 | 104,317 |
| 2025 | 72,684 |
| | $ 463,076 |
| Less: accretion expense | (86,099) |
| | $ 376,977 |

## 13. Share capital and reserves

### (a) Authorized share capital

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares.

### (b) Common Shares issued and outstanding

| *As at September 30* | 2020 | | 2019 | |
|---|---|---|---|---|
| | # | $ | # | $ |
| Outstanding, beginning of year | 134,156,883 | $ 12,402,566 | 134,156,883 | $ 12,405,566 |
| Issued during the year (d) | 1,666,112 | 24,992 | - | - |
| Outstanding, end of year | 135,822,995 | $ 12,430,558 | 134,156,883 | $ 12,405,566 |

### (c) Preferred shares issued and outstanding

There were no preferred share transactions or balances during the year ended September 30, 2020 or 2019.

### (d) Capital transactions

#### (i) For the year ended September 30, 2020

On June 30, 2020, the Company issued 1,666,112 Common Shares of the Company in settlement of $24,992 of interest payable on outstanding long-term liabilities to G&G Private Capital (1,555,038 shares) and Company Officers (111,074 shares).

#### (ii) For the year ended September 30, 2019

There were no transactions.

### (e) Warrants transactions

#### (i) For the year ended September 30, 2020

There were no transactions.

#### (ii) For the year ended September 30, 2019

March 28, 2019
In connection with G&G Private Capital loan arrangements, the Company issued 3,500,000 warrants to the affiliates of G&G and 250,000 warrants to Officers of the Company, 3,750,000 total, with each warrant having an exercise price of $0.05, and an expiry of March 28, 2022 which corresponds to the maturity of the loan. The issued warrants were valued at the residual value of the net present value of anticipated future principal and interest payments using a discount rate of 16% relative to the actual amounts advanced and payable.

The following table reflects the warrants issued and outstanding as at September 30, 2020:

| *Grant Date* | *Expiry Date* | *Remaining useful life (years)* | Exercise price | Number of warrants outstanding and exercisable |
|---|---|---|---|---|
| March 28, 2019 | March 28, 2022 | 1.49 | $0.05 | 3,750,000 |

(Canadian dollars)

The following table reflects the changes in the issued and outstanding warrants during the reporting years:

| | Weighted average | Number of warrants outstanding |
|---|---|---|
| Balance October 1, 2018 | $0.24 | 9,791,250 |
| Warrants issued | $0.05 | 3,750,000 |
| Expired | $0.24 | (9,791,250) |
| As at September 30, 2019 and September 30, 2020 | $0.05 | 3,750,000 |

(f) Stock-based compensation reserve

(i) For the year ended September 30, 2020

There were no transactions.

(ii) For the year ended September 30, 2019

1. Options issued to employees

Effective January 16, 2019 the Board of Directors granted a total of 1,000,000 stock-based compensation options to purchase common shares of the Company ("Options"), exercisable at $0.05 per option and valued at $24,500 (Black-Scholes: expected life of five years, risk free rate of 1.92%, expected dividend yield of 0%, expected volatility of 100% and share price of $0.035) to non-management employees of the Company, with 500,000 of the Options vesting on January 16, 2021 and 500,000 Options vesting January 16, 2022, and all Options expiring January 16, 2024. These Options also expire ninety days after the employer-employee relationship is severed for any reason. The value of these Options is included in administrative expenses in the consolidated statement of operations over the vesting period. A total of $8,670 was expensed during the year ended September 30, 2020 (2019 - $7,446). As of September 30, 2020, none of the Options were exercisable and 240,000 have been forfeited.

2. Other stock-based compensation awards

On March 27, 2019, the Company extended their agreement with Sophic Capital Inc.("Sophic"), an investor relations firm. As part of the renewal agreement the Company granted Sophic a total of 500,000 Options at $0.05 per share, with one quarter (125,000) of the Options vesting each quarter commencing June 2019 and finishing March 2020. These Options were valued at $13,600 (Black-Scholes: expected life: three years, risk free rate: 1.45%, dividend yield: 0%, volatility: 100%, share price: $0.045). These Options expire on the earlier of 90 days from the termination of the engagement and March 27, 2022. The value of these Options is included in selling and marketing expenses in the consolidated statement of operations over the vesting period. A total of $2,210 was expensed during the year ended September 30, 2020 (2019 - $11,390). As of September 30, 2020, all of the Options were exercisable.

The following table reflects the stock-based compensation options issued and outstanding as at September 30, 2020:

| *Grant Date* | *Expiry Date* | *Remaining useful life (years)* | Exercise Price | Number of exercisable Options | Number of Options Outstanding |
|---|---|---|---|---|---|
| February 26, 2016 | February 26, 2021 | 0.41 | $0.14 | 240,000 | 240,000 |
| June 27, 2016 | June 27, 2021 | 0.74 | $0.14 | 300,000 | 300,000 |
| January 5, 2017 | January 5, 2022 | 1.27 | $0.25 | 332,500 | 332,500 |
| September 5, 2017 | September 5, 2022 | 1.93 | $0.18 | 1,000,000 | 1,000,000 |
| January 19, 2018 | January 19, 2023 | 2.30 | $0.13 | 85,000 | 170,000 |
| March 15, 2018 | March 15, 2021 | 0.45 | $0.07 | 500,000 | 500,000 |
| August 17, 2018 | August 17, 2023 | 2.88 | $0.06 | 1,500,000 | 1,500,000 |
| January 16, 2019 | January 16, 2024 | 3.30 | $0.05 | - | 760,000 |
| March 27, 2019 | March 27, 2022 | 1.49 | $0.05 | 500,000 | 500,000 |
| | | | | 4,457,500 | 5,302,500 |

The weighted average exercise price of the outstanding Options as at September 30, 2020 was $0.10 (2019 - $0.12).

The following table reflects the changes in the issued and outstanding options during the reporting years:

| | Weighted Average Price | Number of Options Outstanding |
|---|---|---|
| Balance October 1, 2018 | $0.14 | 6,983,460 |
| Options issued | $0.05 | 1,500,000 |
| Expired and forfeit | $0.16 | (1,077,660) |
| As at September 30, 2019 | $0.12 | 7,405,800 |
| Expired and forfeit | $0.17 | (2,103,300) |
| As at September 30, 2020 | $0.10 | 5,302,500 |

## 14. Contractual obligations

As amended June 26, 2018, the Company agreed to lease office space from Children's Financial Group Inc. for a term of eighty-seven months commencing April 1, 2018. Future minimum lease payments which include the estimated common area costs are summarized below:

| *For the years ended September 30:* | |
|---|---|
| 2021 | $ 168,100 |
| 2022 | 170,788 |
| 2023 | 179,388 |
| 2024 | 182,075 |
| 2025 | 138,975 |

## 15. Financial instruments

The Company is exposed to various types of risks due to the nature of the business it carries on, including those related to the use of financial instruments.

### (a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities. The Company's approach to managing liquidity risk is to ensure that it has sufficient cash and other current financial assets to meet its obligations when due. Management forecasts cash flows to identify financing requirements.

### (b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's main credit risks relate to its trade and other receivables. The Company provides credit to its clients in the normal course of its operations.

As of September 30, 2020, there was a concentration of credit risk with $81,573 (33%) of the Company's receivables collectible from two customers. At September 30, 2019 - $336,293 (41%) was collectible from two customers.

### (c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is mainly exposed to currency risk and interest rate risk.

#### (i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the year ended September 30, 2020, more than 85.7% of the Company's sales were in US dollars (2019 – 87.7%). Consequently, some assets and liabilities are exposed to foreign exchange fluctuations. As at September 30, 2020, cash, trade and other receivables and accounts payable and accrued liabilities of $265,505, $176,951 and $70,860 respectively (2019 - $407,070, $654,223 and $56,976) originated in US dollars and were converted into Canadian dollars at an exchange rate of 1.33 (2019 - 1.32). A plus or minus 5% change in foreign exchange rate would affect loss and comprehensive loss by approximately $23,000.

(Canadian dollars)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Given the current composition of long-term debt, fixed-rate instruments subject the Company to a fair value risk while the floating-rate instruments subject it to a cash flow risk. A one percent (1%) increase or decrease in interest rates would not have a material effect on the Company's operating results.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to significant other price risk.

## 16. Related party transactions and balances

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

| *For the years ended* September 30 | 2020 | 2019 |
|---|---|---|
| Salaries, benefits and directors' fees | $ 542,855 | $ 593,411 |
| Stock-based compensation | $ 29,862 | $ 60,468 |

During the year ended September 30, 2019 Company Officers provided loans to the Company. Details of, and amounts owing to Company Officers are included with long-term liabilities. The details of warrants issued to the Company Officers in connection with these loans are included in long-term liabilities and share capital and reserves.

There were no amounts receivable from any key management, Company Officers, Directors or other related parties on these dates.

Included in the table above, non-Officer Directors fees $36,000 for their services to the Company and $9,192 relating to stock-based compensation was recognized for the year ended September 30, 2020 (2019 - $36,000 in Director's fees and $25,713 in stock-based compensation).

A partner at Nerland Lindsey LLP ("NLLLP") manages corporate legal matters on behalf of the Company and is also a member of the Company's Board of Directors. For the year ended September 30, 2020, the Company had incurred a total of $16,709 (2019 - $33,456) in legal fees from NLLLP.

For the year ended September 30, 2020, the Company paid $2,358 (2019 - $11,118) to Gladstone's Inc. for the creation and production of sales and marketing materials, as well as for other general marketing products and services. Gladstone's Inc. is owned by the spouse of the President, CEO and Chairman of the Board.

## 17. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support customer and product development including the development of its intangible assets. The capital of the Company consists of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management for the years ended September 30, 2020 or 2019.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

## 18. Income taxes

Deferred tax assets have not been recognized in respect to deductible temporary differences of approximately $16,100,000 ( 2019 - $15,100,000) of which $15,000,000 (2019 – $14,200,000) arises from non-capital losses. The non-capital losses expire between 2030 and 2041, and most of the remaining differences may be carried forward indefinitely.

(Canadian dollars)

## 19. Earnings per share and dividends per share

### (a) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the years ended September 30, 2020 and 2019 were based on a net and comprehensive losses of 749,039 and 1,071,874 respectively and a weighted average number of shares outstanding of 134,576,835 and 134,156,883 respectively.

### (b) Dividends

There were no dividends declared or paid by the Company for the years ended September 30, 2020 or 2019.

## 20. Revenue and segmented information

The Company is organized and managed as a single reportable operating segment. Revenues are broken down by software licensing, hardware, support services installation from continuing operations, and classified by major geographical segments in which the Company's customers are located. The following disaggregate revenues by type, timing of recognition and geography.

### (a) Revenue by element

| *For the years ended September 30* | 2020 | 2019 |
|---|---|---|
| Software licensing | $ 1,437,999 | $ 1,780,555 |
| Hardware | 143,180 | 486,308 |
| Support services and installation | 670,498 | 983,720 |
| | $ 2,251,677 | $ 3,250,583 |

### (b) Timing of revenue recognition

| *For the years ended September 30* | 2020 | 2019 |
|---|---|---|
| At a point in time | $ 1,469,265 | $ 2,476,891 |
| Over time | 782,412 | 773,692 |
| | $ 2,251,677 | $ 3,250,583 |

### (c) Geographic Segmentation

| *For the years ended September 30* | 2020 | | 2019 | |
|---|---|---|---|---|
| | % | Revenue | % | Revenue |
| Canada | 14.3 | $ 322,287 | 12.3 | $ 401,312 |
| United States | 75.9 | 1,708,252 | 72.2 | 2,348,206 |
| Mexico | 6.4 | 143,485 | 10.0 | 325,989 |
| Other | 3.4 | 77,653 | 5.5 | 175,076 |
| | | $ 2,251,677 | | $ 3,250,583 |

Any customer contributing to ten percent or more of an entity's revenues is considered a major customer in that year. Revenues from individual customers of the Company vary greatly. Continuing business from the same customer may occur from period to period, however, the Company has no expectation of significant reoccurring revenues. For the year ended September 30, 2020 the Company had no major customers. For the year ended September 30, 2019 the Company had one major customer contributing $319,894 to the Company's total revenue (Mexico - $204,223 in software licensing and $115,671 in support services and installation).

## 21. Analysis of expenses by nature

The following illustrates the break-down of expenses by nature incurred:

### (a) Cost of sales

| *For the years ended September 30* | 2020 | 2019 |
|---|---|---|
| Materials | $ 76,038 | $ 166,439 |
| Direct labour | 477,709 | 545,693 |
| Government labour grant | (114,963) | - |
| Other direct costs | 52,224 | 193,360 |
| Amortization | 40,490 | 40,490 |
| | $ 531,498 | $ 945,982 |

(Canadian dollars)

(b) Operating expenses

| *For the years ended* September 30 | 2020 | 2019 |
|---|---|---|
| Labour and benefits | $ 1,784,883 | $ 2,089,830 |
| Government labour grant | (217,750) | - |
| Advertising and marketing | 184,230 | 244,160 |
| Office and other miscellaneous | 96,967 | 119,650 |
| Bad debts | - | 6,139 |
| Insurance | 33,607 | 31,831 |
| Professional fees | 68,462 | 81,437 |
| Occupancy | 73,715 | 156,811 |
| Communications and support | 81,672 | 81,407 |
| Depreciation and amortization | 89,668 | 28,569 |
| Travel | 121,275 | 275,766 |
| Stock-based compensation | 21,626 | 120,567 |
| Development costs | 24,451 | 32,559 |
| Net (gain) loss on foreign exchange | (9,825) | (8,364) |
| | $ 2,352,981 | $ 3,260,362 |

## 22. Additional cash flows information

Changes in non-cash working capital items consist of:

| *For the years ended* September 30 | 2020 | 2019 |
|---|---|---|
| Trade and other receivables | $ 453,071 | $ (257,394) |
| Inventory | 94,719 | 28,663 |
| Prepaid expenses | 13,188 | (16,073) |
| Accounts payable and accrued liabilities | (91,334) | (88,855) |
| Unearned revenue | 84,049 | 245,538 |
| | $ 553,693 | $ (88,121) |

During the year ended September 30, 2020 no warrants were issued (2019 - $58,783 of warrants were issued as part of debt financing).

# Memex Inc.

# Management's Discussion and Analysis

## For the years ended September 30, 2020 and 2019

Measuring Manufacturing Excellence™

*Management's Discussion and Analysis* (the "MD&A") of the financial condition and results of operations of Memex Inc. ("Memex" or the "Company") should be read in conjunction with the Company's consolidated financial statements and related notes for years ended September 30, 2020 and 2019. The MD&A is prepared as at **January 12, 2021,** and is current to that date unless otherwise stated. The consolidated financial statements and extracts of those financial statements provided within this MD&A, except as otherwise stated ("Other Financial Measures") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

## COMPANY OVERVIEW

Memex, with its head office in Burlington, Ontario is a corporation continued under the Alberta Business Corporations Act ("ABCA"). On July 20, 2015, the Company changed its name from Astrix Networks Inc. to Memex Inc. The Company is a reporting issuer in Ontario, British Columbia, Alberta and Saskatchewan.

Memex's flagship product, MERLIN Tempus™, a software-driven communications platform that delivers manufacturing productivity metrics including Overall Equipment Effectiveness ("OEE") in real time, has established Memex as a leader in the Industrial Internet of Things ("IIoT").

MERLIN measures and analyzes manufacturing and production performance and provides its users with real-time insights on operational efficiency, as well as unparalleled visibility at all levels of the manufacturing process from "Shop-Floor-to-Top-Floor." Its funnel of process data and analytics truly enables Data-Driven Manufacturing, a cornerstone of Continuous Improvement ("CI") and other lean manufacturing initiatives.

MERLIN's customers are generally focused in the discrete manufacturing and aerospace sectors. In addition to the Company's direct sales force it also utilizes a growing network of resellers, system integrators and Original Equipment Manufacturers ("OEM's") to support and expand its global sales footprint.

The MERLIN Tempus Suite provides effective quantification and management of OEE by revealing hidden capacity using real-time objective data, and it offers sustainable benefits that enable world-class OEE such as reducing costs, incorporating strategies for lean manufacturing, CI, and boosting bottom-line financial performance.

## HIGHLIGHTS AND SIGNIFICANT EVENTS

### Revenues, Bookings and Backlog

Memex reported $2.25 million in revenue for the year ended September 30, 2020, a 31% decline from a year ago. Q4-2020 revenue of $500 thousand was down 46% from the same period a year ago.

Bookings for fiscal 2020 of $2.41 million were 31% lower than a year ago. Q4-2020 bookings of $532 thousand were up 6% from the same quarter a year ago.

At September 30, 2020, the Company had $1.25 million in project backlog, up $63 thousand or 5% from September 30, 2019.

### Cash Consumed from Operations / CEWS Grant

The net cash consumed from operational activities after changes in non-cash working capital balances of $46 thousand is an $864 thousand, or 95%, improvement over a year ago. Cash consumed from operations in Q4-2020 after changes in non-cash working capital balances was $66 thousand, down $143 thousand, or 66%, from the same period a year ago.

The most significant factors to the substantial decline in cash consumption include a $373 thousand decline in payroll and benefits spending, the receipt of $333 thousand in government wage subsidies (CEWS), and a $445 thousand decline in advertising, travel, materials and other direct spending (cost of sales). All of these changes have been in response to the COVID-19 Pandemic.

### Restructuring of FedDev loan repayments

On June 12, 2020, the Company received a restructured repayment schedule for its FedDev loan which deferred previously required payments for the remainder of fiscal 2020 (from March to September 2020), and extended future repayments timing out to November 2024.

### Regional Relief and Recovery Fund Loan

On June 30, 2020, the Company received confirmation of a Canadian Government (COVID-19 initiative) supported interest-free Regional Relief and Recovery Fund ("RRRF") loan of up to $127 thousand. On July 28, 2020, the Company received $102 thousand (80%) of the approved loan, and the balance was received November 3, 2020.

## THE COVID-19 PANDEMIC

### The impact of COVID and management's initiatives to mitigate its effects

The impact of the global pandemic caused by the severe acute respiratory syndrome coronavirus 2, SARS-CoV-2 (herein "COVID" or the "pandemic") began to significantly affect Memex's operations in March 2020. The ongoing impact of this pandemic on Memex's operations and financial position still remains very uncertain.

#### Health and safety

To ensure the safety of all Memex stakeholders, management closed its office to all visitors and non-essential staff in March following other mass closures within the province of Ontario. A skeleton staff has managed all critical office functions, shipping and receiving, and the assembly of small-volume components shipped directly to customers since the pandemic began. Although most Memex staff continue to work remotely, all business activities discontinued in March have since resumed on a limited/modified basis.

With the Canadian government continuing to restrict cross border travel, client service work and customer interactions are being undertaken remotely to every extent possible. Company management continues to review and comply with all government restrictions surrounding workplace safety and required social distancing.

#### Business and supply chain disruption

The Company continues to operate and interact with its customers and prospects, and deliver its products and services but has continued to experience product and service delivery delays, as well as purchase order delays and postponements as a direct consequence of COVID. These delays are believed to have had a material effect on Company operations although there is no way to confirm. With varying responses to the pandemic from its (prospective) customers, as well as the government authorities effecting those customers, there is no way for management to reasonably estimate the extent or duration of the effects that COVID will have on the Company's continuing operations.

Memex has maintained more than sufficient MERLIN-related components inventory to satisfy all confirmed customer orders and enough to allow sufficient time to replenish inventory while taking on new business. Inventory levels are not anticipated to be a constraint to ongoing operations. Minor component inventory continues to be manufactured to meet customer demand.

#### Nature and impact of government measures

Memex management continually reviews opportunities to obtain government funding that it believes it is eligible for.

- The Company applied for and received Canada Emergency Wage Subsidies (the "CEWS") and will continue to apply for future subsidies as long as it believes it is eligible.
- Memex received a Regional Relief and Recovery Fund (the "RRRF") loan totalling $127 thousand (July and November 2020) with no requirement to start repayment until January 2023.
- In June 2020, the Company received a restructured repayment schedule for its FedDev loan which postponed previously required payments for fiscal 2020, and extended future repayment requirements out to November 2024. This restructuring was provided as a direct consequence of the pandemic.

#### Access to capital

Prior to COVID, the Company's financial performance made access to competitively priced capital difficult. The vast degree of uncertainty in the global economy in combination with the continued volatility of Canada's financial markets brought on by COVID has likely made the Company's access to new sources of capital more challenging.

#### Customer demand

Memex continues to experience significant interest in its products and services, even as the effects of the pandemic continue to be felt. There is no certainty, however, that this interest will continue, or that this interest will convert into sufficient orders and revenue to maintain operations.

### COVID's impact on the financial statements as presented

Management believes that COVID has had a material effect on the results of its operations for its third and fourth quarters of fiscal 2020. The exact effect on results, including those presented in its year-end audited financial statements for the year ended September 30, 2020 are impossible to determine.

Financial statement considerations and disclosures due to COVID included:

#### The 'Going Concern' assessment

Exacerbated by COVID, but also due to its financial position and available working capital, history of operational losses, and concerns over potential difficulties accessing future sources of operational funding, the Company includes a 'going concern' warning to its shareholders in Note 1 of its financial statements.

### Critical accounting estimates

In the preparation of its financial statements, management must rely on accounting estimates and judgements (i.e. inventory valuation, collectability of receivables, impairments etc.). Management has reviewed the assumptions underlying these critical accounting assessments used in the preparation of its latest financial statements in light of COVID, and other than adding a greater degree of uncertainty, feels that the assumptions relied upon properly reflect the Company's performance for the year ending and financial position as at September 30, 2020.

## Risks and uncertainties to Memex due to COVID

### The length and extent of travel and quarantine restrictions imposed by governments

Although Memex is capable of 'remotely' delivering most of its products and services, if a (prospective) customer requires Memex's hardware adapters to connect its machines, there is a reasonable likelihood they would require on-site installation service. Regardless of Memex's willingness and ability to deliver goods and services and to attend customer locations, depending on the location and any continuing government regulations and restrictions in place for that area, delivery may be significantly delayed or even not be possible. The duration and degree of government restrictions could have a material effect on Memex's future ability to generate revenue and continue its operations.

### Customer decision making adversely effected

With the uncertainty over the duration of the pandemic, and its effect on (prospective) customer operations, some customers may be hesitant to invest in Memex's goods and services until one or all of:

- their own operations stabilize;
- the (general indicators over) local/regional/national/global economies improve;
- customers' management relaxes its control over discretionary spending; and/or
- customers have access necessary capital (possibly) lost due to the pandemic.

## OTHER FINANCIAL MEASURES

Management is using Project 'bookings' and 'backlog' as key performance indicators ("KPI's") in assessing the overall performance of the Company. Neither bookings, nor backlog, have any standardized meaning under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other issuers.

Due to the nature of the Company's business and most of its product offerings, IFRS only allows for the recognition of revenue from most of Memex's sales and delivery efforts once all elements of that sale have been completed. This is regardless of the timing of the effort or the expense laid out by the Company to deliver these orders (IFRS does not provide a 'percentage of completion' alternative for revenue recognition).

A combination of revenue recognition policies and varying customer implementation timelines create inconsistent fluctuations in revenue from period to period such that Management needed to consider other information when measuring and monitoring growth success beyond recognized revenue. Although Management views significant fluctuations in revenue as a key performance indicator, when considered in combination with fluctuations in bookings and backlog it gives a more complete understanding of the Company's overall performance.

Unearned revenue, reported with current liabilities in the Company's statement of financial position, consists of invoiced unearned software and service fees plus all invoiced and unearned project orders (i.e. deposits, progress billings). **Backlog** is the total of all unearned project orders, *both invoiced and un-invoiced*, that the Company has on-hand at any given time. A comparative illustration of unearned revenue and backlog is provided.

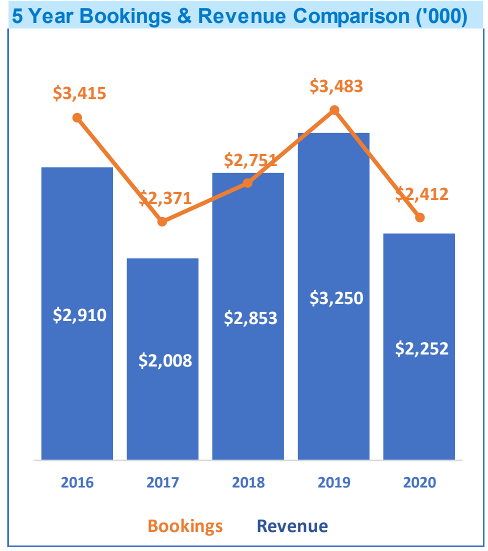
Management considers **bookings** to be the total dollar value of new project orders plus any service and software fees generated in each period. Bookings are the combination of revenue plus current backlog less any backlog that was on-hand at the beginning of the measurement period, adjusted for any changes in unearned services and future software rights.

**Bookings = Revenue + Ending backlog - Beginning backlog + or - Changes in unearned services & future software rights**

## FIVE YEAR COMPARISON

### Bookings and Revenues

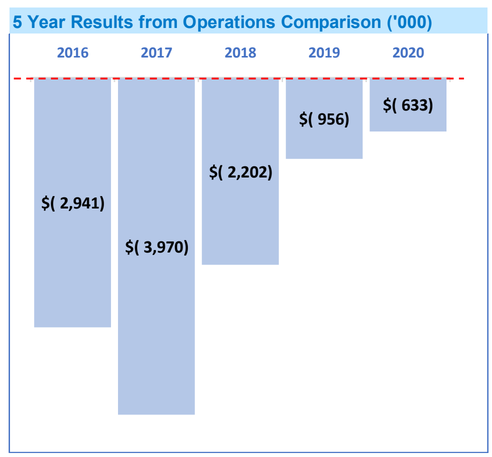
Memex finished the year with $2.25 million in revenue and $2.41 in (net) new project bookings, its second worst showing on both accounts in the past five years, performing only better than fiscal 2017. Of note though, at the end of its second quarter Memex's YTD revenue was at the second highest level it had ever seen; granted 15% below its fiscal 2019 results, but with time and opportunity to improve. This was before COVID.




Although the disruption created by COVID had a negative effect on the Company's ability to deliver on open projects, the far greater consequence was the effect the pandemic had on Memex's customer and prospect base (their ability to commit to purchase combined with their own economic concerns), and the derailment of the Company's sales and marketing strategies, which generally included direct customer/prospect contact. There is no way to quantify the effects of COVID, or to determine if the Company's bookings and revenue trajectory would have remained on track but for COVID, but the continued customer/prospect interest in MERLIN through the pandemic suggests that there is some direct co-relationship between COVID and the decline in top-line performance.

With the exception of the current year, the Company's bookings and revenue trajectory has been positive since the beginning of 2017, and management is optimistic that as North America fights its way past COVID this positive trajectory will continue.

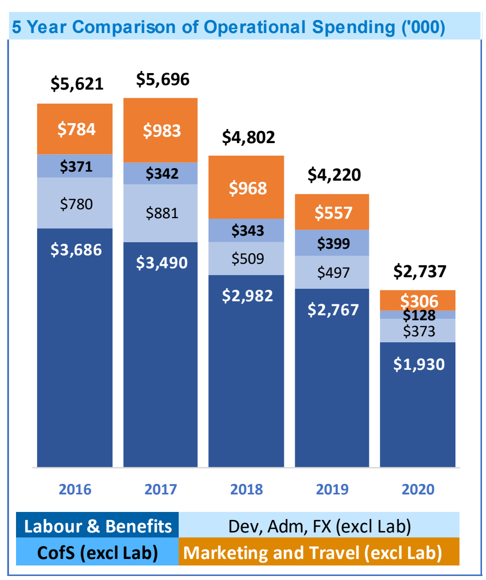
### Results of Operations and Operational Spending




Despite the effects the pandemic has inflicted on the Company's top line, and partially as a consequence, the Company's operational losses have continued to be reeled in, and primarily due to actively controlling spending. The Company's current annual operating losses were the lowest experienced since its RTO in 2013, and represent less than 5% of its total deficit. Even excluding almost $333 thousand in (CEWS) government subsidies, the Company matched its 2019 operating performance with a million dollars less in revenue.

When examining the operational spending over the past five years, current year levels are less than half of that spent in fiscal 2016 and 2017, and 35% less than the prior year's spending. The spending cuts have come from all areas of its operation.

The most noticeable spending trend has been the $1.76 million decline in labour and benefits costs, from the Company's annual high of $3.69 million in 2016 to its lowest point ever of $2.26 million in 2020 (after the CEWS government grant is added back). A decline of nearly 40%. In 2020 the Company engaged 36% fewer staff when compared to fiscal 2016. Internal efficiencies and product improvements related to implementation have allowed management to reduce its labour force and still remain capable of servicing its growing customer base. Management is confident it could accommodate substantial revenue growth without any need to increase its current staffing levels.




Although the current year marketing and travel spending decline is largely due to travel constraints brought on by COVID, looking back over the last five years still reveals management's efforts to maximize its return on its travel and marketing spend. A leaner, more focused sales and marketing team has assisted in constraining these costs, without hindering lead generation and sales development.

For fiscal 2021, management will continue monitoring its spending, with no planned increases that do not directly connect to improved performance.

## LOOKING FORWARD

### Market Trend

Even through all of the negative of COVID and its effect on the global economy, including its direct effect on Memex's operations and ability to generate new business, there are many indicators that continue to suggest that the market trend for industrial internet of things ("IIoT" a subset of IoT or the 'internet of things'), data driven manufacturing and machine monitoring applications will be robust over at least the next five years.

A study from Juniper Research completed in October 2020 identified smart manufacturing as a key growth sector of the IIoT market over the next five years, and could account for 22 billion connections by 2025. This study was carried out just as other studies were showing that despite the disruptive impact of COVID, with 35% of organizations reducing their investments in the internet of things, an even larger number are now planning to invest more in IoT implementations to reduce their costs, among other benefits.

In Martin Boggess's (Vice President, Manufacturing and Supply Chain for Hitachi Solutions) article outlining his prediction of trends that will dominate manufacturing in 2021, right after employee safety he lists IoT as (still) the BIG THING (not a first-time prediction). He goes on to include predictive maintenance (necessary to keep production on track) and new approaches to ERP to include a data-driven approach all as key drivers of manufacturing in the new year, and all concepts that Memex is deeply involved in.

Manufacturing plants generate mountains of data throughout the day, every day. Traditionally, data has been noted on paper or analyzed in spreadsheets. However, today it can be collected automatically via sensors and analyzed with tools that far exceed spreadsheets' capabilities.

ABI Research forecasts that by 2026, manufacturers and industrial firms will be spending US$19.8 billion on data management, data analytics, and associated professional services. "For many manufacturers, there is an appreciation that operational decisions need to be based on empirical evidence rather than guesswork. The challenges are not necessarily capturing and analyzing data, rather what to analyze in the first place," said Michael Larner, principal analyst at ABI Research.

He added that the findings need to have a meaningful impact on operations and so manufacturers need to take a step back and devise precise objectives. "While manufacturers have spent decades refining their physical production lines, today they need to expend effort in optimizing their processes for collecting and analyzing data. But data should not be collected just for the sake of it," Larner concluded.

Manufacturers should be engaging their suppliers to help them prioritize activities and shape projects. Is the priority to increase production, reduce waste, improve quality, or to fully understand whether a piece of machinery needs to be serviced? Predictive maintenance is critical for avoiding downtime, improving efficiency and improving safety on the factory floor.

While management believes the Company is well positioned to capitalize on these market trends if these economic predictions are accurate, the ability of Memex to capitalize on these trends is still subject to the 'risks and uncertainties to the Company' outlined further on in this MD&A.

### Marketing and Prospective Customer Lead Development Strategy

With restrictions on the size of public gatherings and the necessity for social distancing, COVID inflicted massive damage on the 2020 tradeshow and exhibition season, with most events being cancelled or indefinitely postponed. Memex religiously attends the International Manufacturing Technology Show (IMTS) held every other year in September in Chicago, IL, the largest show of its kind in the world which was cancelled for 2020 and not rescheduled.

Historically, the Company has used these types of events to develop its thought leadership material and as a major source of new prospect leads. With this avenue closed, the Company pivoted to various digital marketing strategies including webinars and email marketing. To continuously engage with prospects and to further harness its substantial contact database the Company has undertaken a series of webinars focused on attaining a compelling financial and operational value proposition for Data-Driven Manufacturing, and how it can be accomplished with MERLIN Tempus.

The Company has also undertaken multiple targeted email campaigns customized to target key audiences as it employs email marketing best practices such as A/B testing. Memex currently utilizes the Enterprise Edition of SalesForce with the Pardot Marketing Automation Platform. To add value for its audience, various collaterals (whitepapers, videos, articles) are continually being developed.

Future marketing plans include refining various buyer persona, identifying opportunities for website improvement, and leveraging specifically targeted information gathering including engaging with ZoomInfo.

## OVERALL PERFORMANCE

Memex reported $2.25 million in revenue for 2020, compared to $3.25 million a year ago, a decrease of $999 thousand or 31%;

The Company showed a $749 thousand net and comprehensive loss for the year ended September 30, 2020, equating to an $0.006 loss per share, compared to a $1.07 million net and comprehensive loss a year ago, and a $0.008 loss per share;

Bookings for fiscal 2020 totalled $2.41 million versus $3.49 million in the same period a year ago, down 31%;

Gross margin percentage for the 2020 fiscal year of 76.4% is a 5.5% improvement from 70.9% experienced in 2019;

Cash consumed from operating activities (before changes in working capital balances) was $600 thousand for fiscal 2020, down $222 thousand from the prior year; and

The Company had a $267 thousand working capital deficit and $549 thousand in cash on hand at September 30, 2020, as compared with a $356 thousand working capital surplus and $740 thousand in cash at September 30, 2019.

## SELECTED ANNUAL INFORMATION

| For the years ended September 30<br>(Canadian dollars - in thousands except per share performance) | 2020 | 2019 | | % change |
|---|---|---|---|---|
| Revenues | 2,252 | 3,251 | ↓ | 31% |
| Gross margin | 1,720 | 2,305 | ↓ | 25% |
| Operating expenses | | | | |
| Development | 510 | 771 | ↓ | 34% |
| Selling and marketing | 1,037 | 1,481 | ↓ | 30% |
| Administration | 816 | 1,016 | ↓ | 20% |
| Loss from operations | (633) | (956) | ↑ | 34% |
| Net and comprehensive loss for the period | (749) | (1,072) | ↑ | 30% |
| Basic and diluted loss per share | (0.006) | (0.008) | ↑ | 25% |
| Weighted average shares outstanding | 134,577 | 134,157 | ↑ | 0% |
| Actual shares outstanding | 135,823 | 134,157 | ↑ | 1% |

## RESULTS OF OPERATIONS

### Revenues and Bookings

Revenue for 2020 of $2.25 million was a $999 thousand (31%) decrease from prior year revenue. These results are believed to have been materially impacted by COVID (although not possible to confirm), to the extent that the chaos prevented Memex from delivering on projects that required on-site presence, as well as having customers deferring purchase commitments until the overall economy and their own financial outlooks improve.

Bookings for fiscal 2020 of $2.41 million, were down $1.01 million (31%) from a year ago. COVID is believed to have had a material effect on the Company's ability to close business in the last two quarters of 2020, although it is impossible to determine the full effect.

Customer/prospect interest in Memex and MERLIN has remained strong. But with a high degree of uncertainty over the global, and specifically the North American economy, the Company saw sluggish customer commitment to spend. For fiscal 2020 the Company had the same number of customers as the previous year, however, the number of larger customers was not the same.

**Breakdown of Customers by total amount invoiced**

| For the years ended September 30 | 2020 | 2019 |
|---|---|---|
| Number of customers with total amount invoiced: | | |
| Less than $5,000 | 77 | 69 |
| Between $5,000 and $50,000 | 57 | 60 |
| Between $50,000 and $100,000 | 9 | 9 |
| Between $100,000 and $250,000 | 4 | 6 |
| Greater than $250,000 | - | 3 |
| Total Customers | 147 | 147 |

Closing backlog at September 30, 2020 (bookings not delivered) was $1.25 million, up $63 thousand (5%) from September 30, 2019 (the Company booked 5% more business than it delivered during fiscal 2020). Although a decline in bookings will always be a concern, when evaluated in light of COVID, Company management is reasonably satisfied with the bookings and backlog at the end of fiscal 2020.

| For the years ended September 30 (In thousands of Canadian dollars) | 2020 | 2019 | | % change |
|---|---|---|---|---|
| Revenue for the year | 2,252 | 3,251 | ↓ | 31% |
| + Backlog - end of year | 1,252 | 1,189 | ↑ | 5% |
| - Backlog - beginning of year | (1,189) | (1,100) | | |
| + or - change in unearned service & maint fees | 97 | 144 | | |
| Bookings for the year | 2,412 | 3,484 | ↓ | 31% |

### Gross Margin and Cost of Sales

Gross margin for the current year of $1.72 million is down $585 thousand from a year ago. Calculated as a percentage of revenue, gross margin is up 5.5% from 2019. A significant decline in hardware sales and the benefit of the CEWS wage subsidy account for the direct operating contribution percentage improvement. The decline in total dollar contribution is a direct result of the nearly $1 million decline in top-line revenue.

### Operating Expenses

Operating expenses for the year ended September 30, 2020 of $2.35 million were $907 thousand (28%) less than 2019. The biggest decline in operational spending was a reduction in payroll of $305 thousand in combination with the receipt of $218 thousand in government wage subsidies (CEWS). Marketing and travel costs were collectively down $214 thousand from 2019, largely a consequence of COVID.

With the adoption of IFRS 16, Leases (effective October 1, 2019), the Company included the amortization of its 'right-of-use' asset (its right to use office space) as an expense. The Company also recorded $32 thousand in interest expense on its lease liability, but no longer expenses the monthly lease payments. The interest expense is based upon the Company's estimated incremental cost of borrowing of 9% for obligations of this nature.

For the year ending September 30, 2020 the Company recognized $68 thousand in amortization and $32 thousand in interest expense related to the lease of their office space. Under the accounting standard(s) used prior to October 1, 2019 the Company would have recognized $78 thousand in rent expense not the amortization and interest charges. The Company continues to expense the common area costs associated with its lease as an occupancy expense in the periods in which they are payable.

### Development

Development expenses for the year ended September 30, 2020 were down 34%, or $261 thousand from a year ago. Adjusted for the CEWS grant the spending decline was $150 thousand with virtually all of it related to labour.

### Selling and marketing

Selling and marketing expenses for the year ended September 30, 2020 of $1.04 million were $444 thousand, or 30% lower than 2019. A decline in labour costs and the CEWS grant account for $214 thousand of savings with the combination of marketing and travel spending making up the balance.

### Administration

Administrative expenses for the year ended September 30, 2020 were down 20%, or $200 thousand from 2019. A combination of the CEWS grant and a decline in the cost of employee benefits including stock-based compensation accounts for $150 thousand of the decline. The adoption of IFRS 16 was a non-material contribution to the change.

### Loss from operations

The Company's loss from operations for the year ended September 30, 2020 of $633 thousand, was 34% lower than the $956 thousand loss from a year ago.

### Other transactions effecting net and comprehensive loss

The transactions beyond operations that effected the Company's net and comprehensive income for 2020 included interest on its long-term obligation to G&G, the imputed interest and adjustments on interest-free (government) borrowing from FedDev Ontario (IBI and RRRF loans), as well as the interest expensed on its lease liability (IFRS 16). The net of all interest charges including present value discounts recognized on the FedDev Ontario debts amounted to a $116 thousand charge to income. This compares to a similar charge to income in the 2019 fiscal year.

### Earnings per share

The basic and diluted loss per share of $0.006 for the year was based on a weighted average 134.6 million Common Shares outstanding (2019 – $0.008 basic and diluted loss per share based on a weighted average 134.2 million Shares outstanding).

## LIQUIDITY

| As at (Canadian dollars - in thousands except working capital ratio) | September 30, 2020 | September 30, 2019 | | % change |
|---|---|---|---|---|
| Current assets | 1,140 | 1,901 | ↓ | 40% |
| Total assets | 1,692 | 2,189 | ↓ | 23% |
| Current liabilities | 1,407 | 1,545 | ↓ | 9% |
| Long-term liabilities including lease | 1,452 | 1,109 | ↑ | 31% |
| Working capital* | (267) | 356 | ↓ | 175% |
| Working capital ratio** | 0.81 to 1 | 1.23 to 1 | | |

* Working capital = current assets less current liabilities
** Working capital ratio = current assets / current liabilities

### Working Capital

As at September 30, 2020 the Company had a working capital deficit of $267 thousand, and $549 thousand in cash on hand, as compared with $356 thousand of working capital and $740 thousand in cash at September 30, 2019.

In June 2020 FedDev Ontario agreed to restructure the repayment terms of the Company's IBI term loan. The restructuring extended the repayment requirements until November 2024 and resulted in the recognition of a $57 thousand net present value discount in the second quarter of 2020.

In July 2020, the Company received confirmation of their eligibility for up to $127 thousand interest-free Regional Relief and Recovery Funding ("RRRF"), as well as an advance of $102 thousand. The RRRF program is supported by the Canadian government as part of their COVID relief and recovery measures. The funds are repayable starting in 2023 and were to be used for general operations not funded by other government initiatives (i.e., CEWS). The balance of the approved funding was received in November 2020.

The Company received $750 thousand in funding in March 2019 related to loan facility arrangements with affiliates of G&G Private Capital ("G&G") in conjunction with Company Officers.

During the year ended September 30, 2020 the Company repaid $84 thousand of its interest-free FedDev IBI term loan (2019 - $72 thousand), repaid G&G principal of $105 thousand, Company Officers $8 thousand and reduced its property lease obligation by $46 thousand.

The Company spent $4 thousand in capital additions in 2020 (2019 - $2 thousand).

### Liquidity risk

Management implemented cost cutting initiatives, including staff rationalization during the second quarter of 2020 in an effort to stop consuming cash from its operations and allow it to fund itself as it moved forward. However, the COVID pandemic continues to cast significant uncertainty over the Company's ability to continue to generate sufficient cash. It is possible that bookings and revenue in combination with government funding sources will continue to allow the Company to achieve positive cash flow, however, there is no way to determine if enough positive traction will be achieved to meet the Company's objectives, or for how long the combination of positive cash flow operations and government subsidies and or lending may be available.

To best mediate the level of uncertainty surrounding COVID, Company management monitors and manages cash flows daily to get reasonable comfort all current and any future spending commitments made, can be settled with available resources.

### Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The net assets being held by the Company at any time are exposed to foreign exchange rate fluctuations.

The Company's reporting currency is the Canadian dollar. Virtually all Memex's non-sales operations are undertaken in Canada, and most expenses incurred are denominated in Canadian dollars. The Company's customer base continues to expand throughout North America and other parts of the world, and it generates the majority of its revenue outside of Canada in US dollars. Virtually all quotes are prepared and settled in US dollars.

At September 30, 2020, the Company employed or otherwise contracted four full-time US residents. All other utilized labour is Canadian. At September 30, 2020, the company possessed roughly $460 thousand (net) in US denominated assets.

### Credit risk
The Company, in the normal course of business, monitors the financial condition and reviews the credit history of each new customer. With the adoption of IFRS 9 on October 1, 2018, the Company estimates and reserves its expected credit loss (its "ECL") for the twelve-month period following each reporting date.

As of September 30, 2020, there was a concentration of credit risk with $81,573 (33%) of the Company's receivables collectible from two customers. At September 30, 2019 - $336,293 (41%) was collectible from two customers.

### Cash and cash equivalents
*Operating activities*
Net cash consumed through operating activities for the year ended September 30, 2020 of $46 thousand (after changes in non-cash working capital balances) is an $864 thousand (95%) improvement from fiscal 2019. Management continues to monitor the monthly cash consumption to ensure capital continues to be available to fund ongoing activities.

*Investing activities*
The Company spent $4 thousand on equipment additions in fiscal 2020 (2019 - $2 thousand).

*Financing activities*
For the year ended September 30, 2020 the Company repaid a total of $84 thousand (2019 - $72 thousand) in FedDev IBI long-term financing, $105 thousand in G&G loans (2019 - $nil) and $8 thousand in related party advances associated with the G&G financing (2019 - $nil). The Company also reduced its lease liability by $46 thousand.

During the 2020 year, the Company received new financing from FedDev Ontario (RRRF) of $102 thousand.

*Below is a summary of the cash flows provided by (used in) operating, financing and investing activities:*

| For the years ended September 30<br>(Canadian dollars - in thousands) | 2020 | 2019 | | % change |
|---|---|---|---|---|
| Net Cash flows provided through (used in): | | | | |
| Operating activities | (46) | (910) | ↑ | 95% |
| Investing activities | (4) | (2) | ↑ | 100% |
| Financing activities | (141) | 604 | ↓ | 123% |
| Cash, beginning | 740 | 1,048 | ↓ | 29% |
| Cash, end | 549 | 740 | ↓ | 26% |

### Contractual obligations
The Company's lease of office space from Children's Financial Group Inc. extends to June 30, 2025. Future minimum lease payments (including the estimated common area costs) for the years ending September 30th are 2021 - $168 thousand, 2022 - $171 thousand, 2023 - $179 thousand, 2024 - $182 thousand, 2025 - $ 139 thousand.

## CAPITAL RESOURCES

The Company is using its capital to finance current operations as well as its product development strategies. Memex capital consists of a combination of debt and equity; it has term-debt through the FedDev Ontario ("IBI" and "RRRF") as well as term-debt with G&G. FedDev repayments extend until 2025 and the G&G financing matures March 2022. Management believes the best way to maximize shareholder value is to use a combination of equity and debt financing to leverage operating, product development and growth strategies.

### Operating and other bank credit facilities
Through the Royal Bank of Canada, the Company has a $100 thousand credit facility. This facility is being used through the issue of credit cards to Company employees. The Company has no other operating line or credit facility.

### Outstanding share and other issued securities information
The following table shows the number of securities the Company has outstanding:

| Thousands of securities outstanding as at | September 30, 2020 | January 12, 2021 |
|---|---|---|
| Common Shares | 135,823 | 135,823 |
| Options to purchase common shares by current and former directors and officers[1] | 2,740 | 2,740 |
| Options to purchase common shares by non-officer employees and contractors[1] | 1,563 | 1,563 |
| Options to purchase common shares by investor relations firms[1] | 1,000 | 1,000 |
| Warrants to purchase common shares by current and former directors and officers[2] | 250 | 250 |
| Warrants to purchase common shares by lenders and investors[2] | 3,500 | 3,500 |

1. Each Option entitles its holder to purchase one common share of the Company.
2. Each Warrant entitles its holder to purchase one common share of the Company.

### Transactions with Related Parties

Related parties include shareholders of the Company holding greater than 10% of total outstanding shares of the Company, as well as any close family members and enterprises controlled by these individuals. Related parties also include current and former key management personnel and the Board of Directors. As at January 12, 2021 only Company CEO and President, David McPhail holds (12.6%), through an entity he controls, more than 10% of the total outstanding shares of the Company.

As at September 30, 2020, the balance of loans and advances to the Company from key management personnel totalled $181 thousand (before present value adjustment). An enterprise controlled by Company CEO and President, Dave McPhail is owed $115 thousand, $87 thousand for unpaid management fees between July 2010 and June 2011 and $28 thousand as part of the G&G financing arrangement. An enterprise controlled by a former key management employee is owed $51 thousand for unpaid management fees between July 2009 and April 2010. Company CFO, Ed Crymble is owed $14 thousand as part of the G&G financing arrangement.

The Company has engaged Nerland Lindsey LLP ("NLLLP") to manage its corporate legal matters. Joe Brennan is both a Partner at NLLLP and a member of the Company's Board of Directors. For the year ended September 30, 2020 the Company had incurred $17 thousand in legal fees from NLLLP (2019 - $33 thousand).

Directors' fees of $36 thousand and non-vested stock options (Black-Scholes) of $9 thousand were expensed in fiscal 2020 (2019 - $36 thousand in Directors fees and $26 thousand in stock compensation costs).

The Company engaged Gladstone's Inc. ("Gladstone's") to assist in the creation and production of sales and marketing materials, as well as provide general marketing services. Company CEO and President, Dave McPhail, is related (spouse) to the sole shareholder of Gladstone's. The Company paid Gladstone's $2 thousand during fiscal 2020 (2019 - $11 thousand) in fees.

## NOTABLE TRANSACTIONS AFTER YEAR END

### Canada Emergency Wage Subsidy

Subsequent to September 30, 2020, the Company received a total of $130 thousand in CEWS funding which had been recognized and included within its trade and other receivable at September 30, 2020.

### Regional Relief and Recovery Fund (RRRF)

On November 3, 2020 the Company received the $25 thousand balance of FedDev RRRF funding.

## SELECTED FOURTH QUARTER INFORMATION

| For the three months ended September 30<br>(Canadian dollars - in thousands except per share performance) | 2020 | 2019 | | % change |
|---|---|---|---|---|
| Revenues | 500 | 932 | ↓ | 46% |
| Gross margin | 439 | 648 | ↓ | 32% |
| Operating expenses | | | | |
| Development | 58 | 197 | ↓ | 71% |
| Selling and marketing | 172 | 288 | ↓ | 40% |
| Administration | 189 | 267 | ↓ | 29% |
| Income (loss) from operations | 3 | (93) | ↑ | 103% |
| Net and comprehensive loss for the period | (11) | (137) | ↑ | 92% |
| Basic and diluted loss per share | (0.000) | (0.001) | ↑ | 98% |
| Weighted average shares outstanding | 135,823 | 134,157 | ↑ | 1% |
| Actual shares outstanding | 135,823 | 134,157 | ↑ | 1% |

### Correction of previously reported quarterly results of fiscal 2020

On October 1, 2019, the Company adopted IFRS 16, Leases ("IFRS" 16), which required the capitalization and amortization of its right to use its office space (its "right-of-use" or "ROU" asset) and recognize the 'lease liability' valued at the net present value of its future required lease payments using its estimated incremental cost of borrowing. This was done using the modified retrospective approach, so the comparative information of prior years was not restated and continues to be reported under IAS 17.

When the ROU asset was initially capitalized, and the lease liability recognized, Company management included the committed 'common area costs' (the "CAM") as part of the lease liability. However, due to the nature of the CAM they due not meet the definition of a ROU asset and should be accounted for in similar fashion to rental costs (prior to the adoption of IFRS 16) and expensed as incurred (see the Summary of changes to Memex's 2020 reported quarterly results).

| Summary of changes to Memex's 2020 reported quarterly results (Canadian dollars - in thousands) | For the three month periods ended December 31, 2019 | March 31, 2020 | June 30, 2020 | September 30, 2020 | For the yr ended Sep 30, 2020 |
|---|---|---|---|---|---|
| *Income (loss) from operations for the period as originally reported* | $ (446) | $ (230) | $ 52 | $ 3 | |
| Adjust amortization on right-of-use asset | 15 | 15 | 15 | - | |
| Include common area charges in occupancy expense | (19) | (19) | (19) | - | |
| *Restated income/(loss) from operations for the period* | (450) | (234) | 48 | 3 | (633) |
| *Net and comprehensive income (loss) for the period as originally reported* | $ (507) | $ (292) | $ 49 | $ (11) | |
| Amortization and common area adjustments above | (4) | (4) | (4) | - | |
| Adjust interest on lease liability | 10 | 7 | 7 | - | |
| *Restated net and comprehensive income (loss) for the period* | (501) | (289) | 52 | (11) | (749) |

## FOURTH QUARTER RESULTS OF OPERATIONS

### Revenues and Bookings

Q4-2020 revenue of $500 thousand was $432 thousand (46%) lower than Q4 in 2019. Q4-2020 revenue was also $54 thousand or 10% lower than Q3-2020. The effects of the COVID were believed to materially contribute to the decline of Company revenue for the 4th quarter.

Bookings for the 4th quarter of $532 thousand, were up $29 thousand, or 6%, from the same period in 2019. Q4 bookings were also up $61 thousand, or 13%, from Q3-2020. Bookings represent the committed future business that the sales team has secured for future delivery.

Closing backlog (bookings not delivered) of $1.25 million, was up $63 thousand (5%) from September 30, 2019 and also up $145 thousand (13%) from June 30, 2020.

| For the three month periods ended September 30 (In thousands of Canadian dollars) | 2020 | 2019 | | % change |
|---|---|---|---|---|
| Revenue for the Quarter | 500 | 932 | ↓ | 46% |
| + Backlog - end of period | 1,252 | 1,189 | ↑ | 5% |
| - Backlog - beginning of period | (1,107) | (1,567) | | |
| + or - change in unearned service & maint fees | (113) | (51) | | |
| Bookings for the Quarter | 532 | 503 | ↑ | 6% |

### Gross Margin and Cost of Sales

Gross margin for the three months ended September 30, 2020 of $439 thousand is down $209 thousand, or 32% from the same period a year ago. Calculated as a percentage of revenue, gross margin increased 18% from Q4-2019. Hardware sales were down substantially (70%) from Q4-2019, and accounts for the combined $86 thousand drop in hardware costs and installation travel (COVID). The CEWS grant proceeds of $62 thousand combined with a $55 thousand decline in labour costs, both unrelated to top-line revenue fluctuations, also contributed significantly to the improvement in margin percentage.

### Operating Expenses

Operating expenses for the three-month period ended September 30, 2020 of $436 thousand were $304 thousand (41%) less than the same quarter in fiscal 2019. Labour and benefits spending decreases ($135 thousand) combined with CEWS grant proceeds ($119 thousand) were the most significant fluctuations, with a $48 thousand decline in travel spending being the other notable change.

### Development

Development expenses for the three-month period ended September 30, 2020 were down $139 thousand (71%) from the same quarter a year ago. The labour spending reduction of $75 thousand from Q2 labour rationalization combined with $61 thousand in CEWS grant account for the decline.

### Selling and marketing

Selling and marketing expenses for the three-month period ended September 30, 2020 of $172 thousand, were $116 thousand, or 40%, lower than the same period in fiscal 2019. Labour spending decline of $44 thousand combined with the $36 thousand CEWS grant accounts for most of this change Travel spending was down $47 thousand from the same period a year ago.

## Administration
Administrative expenses for the three months ended September 30, 2020 were down $78 thousand (29%) from Q4-2019. A combination of the CEWS grant and a decline in employee benefits spending accounts for $35 thousand of the decline. The only other significant fluctuation was a $19 thousand decline in stock-based compensation expense.

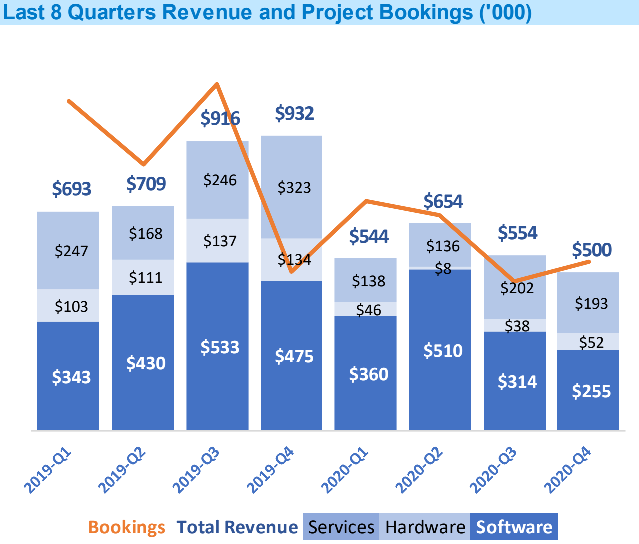
## Income from operations
The Company's *income* from operations for the quarter ended September 30, 2020 of $3 thousand, was a $96 thousand (103%) improvement from the same period a year ago.

## Other transactions effecting net and comprehensive loss
Interest and accretion expense for the 4th quarter of 2020 of $46 thousand was netted against the net present value discount of $31 thousand recognized upon receipt of the FedDev RRRF loan for a $15 thousand net charge to income for the period. This compares with $45 thousand in net interest charges in Q4-2019.

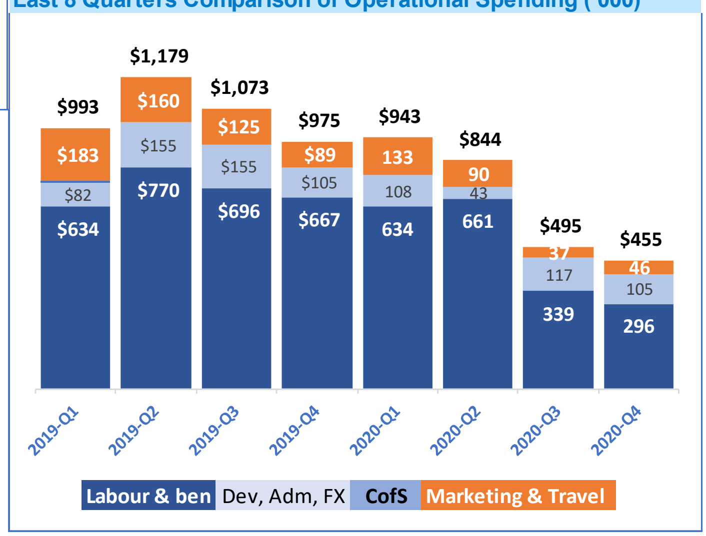
## Earnings per share
The basic and diluted income per share of $0.000 for the current quarter was based on a weighted average 135.8 million Common Shares outstanding (2019 – $0.001 basic and diluted loss per share based on a weighted average 134.1 million Shares outstanding).

## SUMMARY OF QUARTERLY RESULTS

**Last 8 Quarters Revenue and Project Bookings ('000)**




**Last 8 Quarters Comparison of Operational Spending ('000)**



## SUMMARY OF RESULTS FOR THE LAST 8 QUARTERS

| As at and for the three month periods ending (In thousands except per share amounts) | Sep 30, 2020 | Jun 30, 2020 | Mar 31, 2020 | Dec 31, 2019 | Sep 30, 2019 | Jun 30, 2019 | Mar 31, 2019 | Dec 31, 2018 |
|---|---|---|---|---|---|---|---|---|
| **OPERATIONS INFORMATION** | | | | | | | | |
| Bookings | 532 | 471 | 682 | 727 | 503 | 1,094 | 843 | 1,043 |
| Change in backlog, unearned revenue | (32) | 83 | (28) | (183) | 429 | (178) | (134) | (350) |
| Revenue | 500 | 554 | 654 | 544 | 932 | 916 | 709 | 693 |
| Cost of sales | 61 | 70 | 189 | 212 | 284 | 236 | 197 | 228 |
| Gross margin | 439 | 484 | 465 | 332 | 648 | 680 | 512 | 464 |
| Gross margin percentage | 87.9% | 87.4% | 71.1% | 61.0% | 69.5% | 74.2% | 72.2% | 67.0% |
| Operating expenses | | | | | | | | |
| Development | 58 | 68 | 203 | 181 | 197 | 194 | 196 | 185 |
| Selling and marketing | 172 | 171 | 326 | 368 | 288 | 405 | 358 | 430 |
| Administration | 189 | 165 | 246 | 216 | 267 | 253 | 260 | 235 |
| Foreign exchange | 17 | 32 | (75) | 17 | (12) | 36 | 17 | (50) |
| Total operating expenses | 436 | 436 | 700 | 782 | 740 | 889 | 832 | 799 |
| Loss from Operations | 3 | 48 | (235) | (450) | (93) | (209) | (319) | (335) |
| Interest and other | (15) | 4 | (55) | (51) | (45) | (45) | (13) | (13) |
| Net and comprehensive loss | (11) | 52 | (289) | (500) | (137) | (254) | (332) | (348) |
| Basic and diluted loss per share | (0.000) | 0.000 | (0.002) | (0.004) | (0.001) | (0.002) | (0.002) | (0.003) |
| Weighted average shares o/s-period | 135,823 | 134,157 | 134,157 | 134,157 | 134,157 | 134,157 | 134,157 | 134,157 |
| Shares outstanding-period end | 135,823 | 135,823 | 134,157 | 134,157 | 134,157 | 134,157 | 134,157 | 134,157 |
| **CASH FLOW INFORMATION** | | | | | | | | |
| Operating activities before chgs in NCWCB's* | 20 | 26 | (220) | (426) | (71) | (184) | (265) | (301) |
| Changes in NCWCB's* | (86) | (16) | 381 | 275 | (138) | 110 | 109 | (169) |
| Net Operating activities | (66) | 10 | 162 | (152) | (209) | (75) | (157) | (470) |
| Investing activities | - | - | - | (4) | - | - | (2) | - |
| Financing activities | 50 | (47) | (89) | (54) | (19) | (18) | 664 | (24) |
| Net cash flow | (16) | (37) | 73 | (210) | (228) | (92) | 506 | (494) |
| Cash, beginning of period | 565 | 602 | 529 | 740 | 967 | 1,059 | 553 | 1,048 |
| Cash, end of period | 549 | 565 | 602 | 529 | 740 | 967 | 1,059 | 553 |
| *NCWCB's=non cash working capital balances | | | | | | | | |
| **BALANCE SHEET INFORMATION** | | | | | | | | |
| Cash | 549 | 565 | 602 | 529 | 740 | 967 | 1,059 | 553 |
| Working capital | (267) | (408) | (542) | (197) | 356 | 501 | 759 | 380 |
| Total assets | 1,692 | 1,593 | 1,704 | 2,007 | 2,189 | 2,491 | 2,774 | 1,819 |
| (Deficit) / Shareholders' equity | (1,168) | (1,166) | (1,222) | (946) | (465) | (360) | (141) | 96 |

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are, and will continue to be, evaluated on an ongoing basis. However, actual results could differ significantly from these estimates.

Management believes that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the Company's financial statements. It is believed that there have been no significant changes in the critical accounting estimates for the periods presented in the financial statements. (A complete summary of the Company's significant accounting policies can be found in the accompanying notes to its consolidated financial statements for its latest year ended September 30, 2019.)

### Revenue recognition

The Company recognizes revenue at the time significant risks and rewards of ownership have been transferred to the customer or the services have been performed, the price is fixed or determinable, collectability is reasonably assured, and costs incurred or to be incurred can be measured reliably.  Amounts invoiced to customers (primarily deposits, down payments and charges for ongoing maintenance or support services) that do not meet the revenue recognition criteria are considered 'unearned' and included with the Company's current liabilities for reporting purposes.

The Company enters into revenue arrangements that may consist of multiple deliverables ("Multiple-element arrangements") of software licensing, hardware, support service and installation. Except for software subscriptions and version upgrade rights, which are recognized over the periods to which the rights relate, revenue from arrangements involving multiple deliverables is recognized when collection is probable, and all elements have been delivered/completed. Revenue is allocated to each respective element based on its fair value.

The Company often requires a 40% deposit on multi-element arrangements as well as some contractual situations. Any deposits received are initially recorded as unearned revenue.

(a) Software licensing

The Company's software licensing revenue reflects sales to its clients primarily on a perpetual basis, where the customer receives an indefinite future right to use the software provided in accordance with the Company's terms of use. Unless the sale is part of a multiple-element arrangement, revenue from perpetual license sales is recognized once the software has been installed on client equipment, the amount of revenue can reliably be measured, and collection is reasonably certain. Software licensing revenue also includes software version upgrade rights, which are charged to licensed users annually and recognized as revenue after collection over the periods to which the upgrade rights relate. Amounts collected prior to being earned are recorded as unearned revenue.

Software licensing revenue also includes the sale of ongoing licensing rights, where the client maintains the right to use the software as long as they pay their periodic licensing fee. Revenue from the sale of ongoing licensing rights is recognized over the periods to which the licensing rights relate.

(b) Hardware

Unless part of a multiple-element arrangement, revenue from the sale of hardware products is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable, and collection is probable. Hardware is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company's hardware sales, these criteria are met at the time the product is shipped.

(c) Support services and installation

Unless part of a multiple-element arrangement, revenue from support services is recognized after the service has been provided and collection is probable. In instances where the Company invoices the client prior to performing support service, the prebilling is recorded as unearned revenue. Support revenue also includes the recognition of previously deferred revenue related to multi-element arrangements for installation, configuration and support.

## Financial Instruments

(a) Financial assets

1. Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"), and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. Trade and other receivables held for collection of contractual cash flows are measured at amortized cost.

2. Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of operations and comprehensive loss.

3. Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of operations. The Company does not measure any financial assets at FVPL.

4. Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of operations and comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

5. Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when the Company has transferred substantially all the risk and rewards of ownership of the assets. Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Company derecognizes the transferred asset only if it no longer controls the asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Company retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized in full, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received, including any new assets and/or liabilities recognized.

(b) Financial liabilities

1. Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities and long-term liabilities, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

2. Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of operations and comprehensive loss.

3. Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of operations and comprehensive loss.

## Asset impairment

(a) Financial assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

(b) Non-financial assets

Property, equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – "CGUs").

The recoverable amount of an asset or CGUs is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying value of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

## Leases

On January 1, 2019, the IASB issued IFRS 16, Leases ("IFRS 16"), which supersedes IAS 17, Leases. The Company adopted the new standard as of its effective date, on October 1, 2019, on a modified retrospective basis whereby comparative information has not been adjusted.
The Company has applied the following practical expedients:

- On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, and IFRIC 4, determining whether an arrangement contains a lease, were not reassessed for whether there is a lease. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after October 1, 2019;
- Account for leases with a remaining term of less than 12 months as at October 1, 2019 as short-term lease
- Account for lease payments as an expense and not recognizing a right-of-use asset if the underlying asset is of low dollar value; and
- Use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease;
- The Company has elected not to record depreciation of the right-of-use assets prior to the date of initial application.

- The Company has elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

On adoption of IFRS 16, the Company's leases are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases at its weighted average incremental borrowing rate

(a) Leases before October 1, 2019 (IAS 17)

Finance leases - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases - Operating lease payments are recognized as office and general expenses in the consolidated statements of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term and include renewal terms when it is reasonably certain that the option will be exercised. Contingent rentals arising under operating leases are recognized as an expense in the year in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(b) Leases as at October 1, 2019 (IFRS 16) (Lessee)

A contract is a lease (or may contain a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Amortization is recognized on the right-of-use asset over the lesser of the lease term and the asset's useful life. The lease liability is subsequently measured at amortized cost using the effective interest method. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### Research and development expense

Since becoming a reporting issuer in October 2013, all expenses related to research and development activities have been expensed as incurred.

Development costs of certain hardware components incurred prior to becoming a reporting issuer, net of investment tax credits, were capitalized as deferred development costs. These costs are being amortized over their estimated product life estimated to be 2024.

### Income taxes

Income taxes are accounted for using the asset and liability method. This creates deferred income tax assets and liabilities which can be affected by changes in income tax rates and the assumption of the income rates that are most likely to apply when the deferred income tax asset or liability is settled. The effect of changes in income tax rates is recognized in the year during which these rates change. As appropriate, a valuation allowance is recognized to decrease the value of the tax assets to an amount that is more likely than not to be realized. In estimating the realization of deferred income tax assets, management considers whether a portion or all deferred tax assets are more likely or not to be realized. Realization is subject to future taxable income.

## RISKS AND UNCERTAINTIES TO THE COMPANY

There are several inherent risks associated with the business of the Company. The following are certain risk factors related to the business being carried on which should be carefully considered. It is believed that these are factors that could cause actual results to be different from expected and historical results, but the risks presented below may not be all of the risks that the Company may face. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. Other sections of this MD&A, ***and specifically 'THE COVID-19 PANDEMIC' section***, include additional factors that could have an effect on the business and financial performance of the business of the Company.

The markets in which the Company currently competes are very competitive and change rapidly. Therefore, new risks may emerge, and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. You should not rely upon forward-looking statements as a prediction of future results.

### Effects on revenue of customer speculation or knowledge of future product or feature releases

As the Company continues to develop, improve, upgrade and otherwise alter its product offerings, it may periodically provide advanced timing and availability information to its customers and prospects, or they may speculate as to future products availability and timing. Management believes that customer and prospect speculation or knowledge of upcoming product and feature releases, including timing, has, and may continue to, cause fluctuations in revenues. The willingness of customers and prospects to purchase currently available products (even with the right to upgrade to the newest product releases once they become available) may or may not be influenced by new product development, and there is no guarantee that customers or prospects will ever make a purchase from Memex.

### History of losses and the inability to achieve or sustain profitability

The Company showed a profit for the year ended September 30, 2011 followed by net losses for the years ended September 30, 2012 through 2020. There is no certainty that the Company will become profitable in the short term or if it will continue to incur net losses through 2021 and beyond.

Further, the Company expects to continue to incur future expenses including product development and sales and marketing costs, which will most likely be in advance of sales generated by those efforts. If the Company is unable to convert its development costs into revenue it may be difficult to achieve and maintain profitability. Beyond this, the Company may incur significant losses in the future for a number of reasons including other risks described in this document, and it may encounter unforeseen expenses, difficulties, complications, delays and other unknown events. Accordingly, the Company may not be able to achieve or maintain profitability.

### IIoT software is a relatively new market

The Company derives, and it is expected that the Company will continue to derive, substantially all its revenue from selling its flagship product MERLIN, a software driven IIoT communications platform that provides manufacturing analytics in real time. This is a relatively new and rapidly evolving market, where the majority of manufacturers have not adopted manufacturing analytics software. If the market for MERLIN fails to grow or grows at a slower rate than the Company currently anticipates, the Company's business would be negatively affected. The Company has targeted expansion into markets it believes are most likely to adopt MERLIN. However, the Company's efforts to expand within and beyond the current markets may not be achieved at the rate of adoption the Company anticipates.

### No assurance that cash flow from operations, debt or equity financing will be available

The Company anticipates continuing to make substantial operating expenditures as it implements its growth strategy. These operating expenditures may be financed out of cash generated from operations and possible future debt or equity financings. However, the ability to finance such expenditures out of cash generated from operations will depend on the financial performance of the Company. The ability of the Company to finance such expenditures from possible future debt or equity financings will be dependent on, among other factors, the overall state of capital markets, the financial condition of the Company and investor demand for investments in the technology sector and the Company's securities in particular. To the extent that either internal or external sources of capital become limited or unavailable, or only available on onerous terms, the Company's ability to maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result. Readers are encouraged to review Note 1 – 'Nature of business and going concern' to its most recent financial statements.

### Retention of key personnel

The Company's performance is substantially dependent on the performance of its executive officers and key employees. The loss of the services of any of the Company's executive officers or other key employees could significantly harm its business. Memex does not currently have a formal succession program or management training program in place for succession or training of management.

### Competition

The Company is engaged in an industry that is highly competitive, evolving and is characterized by technological change. As a result, it is difficult for it to predict whether, when and by whom new competing technologies or new competitors may enter the market. Some of these current and potential competitors are much larger than the Company with access to significant resources it cannot currently match. The Company cannot assure that it will be able to compete effectively against current and future competitors. In addition, competition or other competitive pressures may result in price reductions, reduced margins or loss of market share, any of which could have a material adverse effect on the Company's business, financial condition or results of operations.

### Protection of intellectual property

The Company's commercial success depends to a significant degree upon its ability to continue to develop and improve its core product software, MERLIN, and to maintain the associated hardware technologies and products that support this software. Despite its efforts to protect and maintain security around the Company's Intellectual Property ("IP"), competitors and other third parties may be able to design around or develop products similar to those of Memex.

A number of the Company's competitors and other third parties have been issued patents, or may have filed patent applications, or may obtain additional patents or other IP rights for technologies similar to those that the Company has developed, or may develop, use or commercialize, in the future. As certain patent applications in the United States and other countries are maintained in secrecy for a period of time after filing, and as publication or public awareness of new technologies often lags behind actual discoveries, the Company cannot be certain that it has been the first to develop the technology. Further, prosecution and protection of the rights sought in patent applications and patents can be costly and uncertain, often involve complex legal and factual issues and consume significant time and resources.

In addition, while the Company generally enters into confidentiality and non-disclosure agreements with its employees, consultants, contract manufacturers, distributors and dealers and with others to attempt to limit access to and distribution of its proprietary and confidential information, it is possible that:

- misappropriation of its proprietary and confidential information, including technology, will nevertheless occur;
- its confidentiality agreements will not be honored or may be rendered unenforceable;
- third parties will independently develop equivalent, superior or competitive technology or products;
- disputes will arise with its current or future strategic licensees, customers or others concerning the ownership, validity, enforceability, use, patentability or registerability of IP; or
- unauthorized disclosure of its know-how, trade secrets or other proprietary or confidential information will occur.

The Company cannot assure that it will be successful in protecting, maintaining or enforcing its IP rights. If it is not successful in protecting, maintaining or enforcing its IP rights, then the Company's business, operating results and financial condition could be materially adversely affected.

### Intellectual property of others

The Company's commercial success depends, in part, upon it not infringing or violating IP rights owned by others. The industry in which the Company competes has many participants that own, or claim to own, IP. The Company cannot determine with certainty whether any existing third-party patents, or the issuance of any new third-party patents, would require it to alter its technologies or products, obtain licenses or cease certain activities, including the sale of its core product.

The Company may in the future receive claims from third parties asserting infringement and other related claims. Litigation may be necessary to determine the scope, enforceability and validity of third-party IP rights or to protect, maintain and enforce the Company's IP rights. Some of the Company's competitors have, or are affiliated with companies having, substantially greater resources than it has, and these competitors may be able to sustain the costs of complex IP litigation to a greater degree and for longer periods of time than the Company can. Regardless of whether claims that it is infringing or violating patents or other IP rights have any merit, those claims could adversely affect the Company's relationships with current or future distributors and dealers of its products, adversely affect its reputation with customers, be time-consuming and expensive to evaluate and defend, cause product shipment delays or stoppages, divert management's attention and resources, subject the Company to significant liabilities and damages, require it to enter into royalty or licensing agreements or require it to cease certain activities, including the sale of products.

If it is determined that the Company has infringed, violated or is infringing or violating a patent or the IP right of any other person or if it is found liable in respect of any other related claim, then, in addition to being liable for potentially substantial damages, the Company may be prohibited from developing, using, distributing, selling or commercializing certain of its technologies or applications unless it obtains a license from the holder of the patent or other IP right. The Company cannot assure that it will be able to obtain any such license on a timely basis or on commercially favorable terms, or that any such licenses will be available, or that workarounds will be feasible and cost-efficient. If it does not obtain such a license or find a cost-efficient workaround, the Company's business, operating results and financial condition could be materially adversely affected and it could be required to cease related business operations in some markets and restructure its business to focus on its continuing operations in other markets.

### Information technology systems and security

The Company utilizes many information technology systems for the management of its business. The reliability and security of these systems is critical. If the functionality of these systems is interrupted or fails and cannot be restored quickly, or if the technologies are no longer supported, the Company’s ability to conduct its business could be compromised. Further, although the technology systems the Company utilizes are intended to be secure, there is a risk that an unauthorized third party could access the systems. Such a security breach could lead to adverse consequences, including but not limited to, the unavailability, disruption or loss of key functionalities within the Company’s control systems and the unauthorized disclosure, corruption or loss of sensitive company, customer or personal information. The Company attempts to prevent such breaches through the implementation of various technology security measures, engaging skilled consultants and employees to manage the Company’s technology applications and improve policies and procedures. There is no guarantee that these measures will be effective.

### Failure to manage growth

The Company's failure to manage its growth successfully may adversely impact its operating results. The Company's ability to manage growth will require it to continue to build its operational, financial and management controls, human resource policies, and reporting systems and procedures. The Company's ability to manage its growth will also depend in large part upon a number of factors, including the ability for it to rapidly expand its internal, operational and financial controls significantly so that it can maintain control over operations, attract and retain qualified technical personnel in order to continue to develop its core product ensuring that it continues to respond to evolving customer needs, build a sales team to keep customers and channel partners informed regarding the technical features issues and key selling points of its products and services, develop support capacity for customers as sales increase, and build a channel network to create an expanding presence in the evolving marketplace for its products and services.

An inability to achieve any of these objectives could harm the business, financial condition and results of operations of the Company.

### Litigation

Although there are currently no legal proceedings outstanding or, to the best of the knowledge of the Company, contemplated against it, the Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business.

### Sales forecasting

The Company's revenues are difficult to forecast and, as a result, its quarterly operating results can fluctuate substantially. The Company has developed a pipeline approach to anticipate when revenue will occur, but these estimates can be significantly impacted by the sales process, economic conditions in general or specific in the Company's target markets, and the order cycle of its customers.

### Foreign exchange

The presentation currency of the Company is the Canadian dollar. The Company does business and sells primarily into foreign markets, primarily the United States of America, with virtually all of its sales and most of its sales and marketing spending taking place in US dollars. The Company does not currently participate in hedging activities. Although it cannot predict the effect of possible foreign exchange losses in the future, if they occurred, then they could have a material adverse effect on the Company's business, results of operation, and financial condition. In addition, fluctuations in exchange rates could affect the pricing of its products and negatively influence customer demand.

## RISKS RELATED TO AN INVESTMENT IN COMMON SHARES OF THE COMPANY

### Concentration of Voting Power

Many common shares of the Company are concentrated in the hands of the Company's Senior Management team and its Board of Directors, whose collective holdings currently total 13.9%. As a result, these shareholders may have a significant influence over any matters requiring shareholder approval, including the election of directors and significant corporate transactions such as a business combination, takeover proposal or other sale of the Company or its assets, for the foreseeable future.

### Dilution and Future Sales of Common Shares

The Company may issue additional common shares in the future, which may dilute a shareholder's holding in the Company. The Company's articles permit the issuance of an unlimited number of common shares, and shareholders will have no pre-emptive rights in connection with such further issuances. The directors of the Company have the discretion to determine if an issuance of common shares is warranted, the price at which such issuance is affected and the other terms of issue of common shares. Also, additional common shares of the Company may be issued by the Company upon the exercise of options to acquire common shares under the Company's Stock Option Plan or Warrants to purchase common shares which are currently outstanding, which will result in further dilution to the shareholders of the Company.

### Unpredictability and Volatility of the Common Share Price

There can be no assurance that a significant public market for the common shares of the Company will develop or be sustained. The current trading price of the common shares of the Company or the price at which the common shares have been issued in connection with the private placements may not be indicative of the market price of the common shares of the Company in the future. If an active public market for the common shares of the Company does not develop or is not maintained, the liquidity of an investment in such common shares may be limited, the market price could be subject to significant fluctuations and the price per share may decline below the deemed price of the common shares of the Company exchanged in connection with the Qualifying Transaction.

The market price of the common shares of the Company could also fluctuate significantly as a result of many factors, including but not limited to the following: economic and stock market conditions generally, and specifically as they may impact participants in the software development industry; the Company's earnings and results of operations and other developments affecting the Company's business; sales of common shares of the Company into the market by the shareholders and/or the insiders of the Company; changes in financial estimates and recommendations by securities analysts following the common shares of the Company; earnings and other announcements by, and changes in market evaluations of, the software development industry; changes in business or regulatory conditions affecting participants in the software development industry; trading volume in the common shares of the Company; additions or departures of key personnel; and competitive pricing pressures in the software development industry.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance of such companies. Accordingly, the market price of the common shares of the Company may decline even if the Company's operating results or prospects have not changed.

### Dividends

If the Company generates earnings in the foreseeable future, it expects that such earnings will be retained to finance growth, both organically and by acquisitions, if any, and, when appropriate, repay debt. The directors of the Company will determine if and when dividends should be declared and paid in the future based on the Company's financial position at the relevant time. Each of the common shares of the Company entitles its holder to an equal share in any dividend declared and paid by the Company. The Company does not expect to pay any dividends in the foreseeable future. Investors seeking cash dividends should not purchase common shares of the Company.

### Financial Market Turmoil

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

### Economic Downturn in the Global Economy

At times when there is a downturn in the global economy, the Company and its industry peers may have restricted access to capital and may suffer from increased borrowing costs. The lending capacity of all financial institutions may be diminished, and risk premiums may increase. As the ability of the Company to meet future capital requirements may depend upon its ability to borrow money from third parties or make additional offerings of securities in the future, the ability of the Company to do so may be limited by, among other factors, the overall state of capital markets and investor demand for investments in the technology industry, more precisely in the software development industry and the Company's securities in particular.

To the extent that external sources of capital become limited or unavailable or only available on onerous terms, the ability of the Company to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result. Failure to obtain any financing necessary for the growth plans of the Company may result in a delay in carrying out its business strategy.

Economic conditions and other factors may also reduce the demand for software products or services from that forecasted and factors expected to support or increase demand may not have the effect expected. Any reduction in demand may have a material adverse effect on the financial results or condition of the Company.

## FORWARD-LOOKING STATEMENTS

This MD&A may contain certain “forward-looking statements” and certain “forward-looking information” as defined under applicable Canadian securities laws. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “continue,” “plans” or similar terminology. Forward looking statements and information are subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Company to control or predict, that may cause the Company’s actual results, performance or achievements to be materially different from those expressed or implied thereby, and are developed based on assumptions about such risks, uncertainties and other factors. While Memex anticipates that subsequent events and developments may cause its views to change, the Company undertakes no obligation to update forward-looking information except as required by applicable law. Such forward-looking information represents Management’s best judgment based on information currently available. No forward-looking statement can be guaranteed, and actual future results may vary materially. Accordingly, readers are advised not to place undue reliance on forward-looking statements or information.