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**Memex Inc.**

**Consolidated Financial Statements**

**For the years ended September 30, 2019 and 2018**

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# MEMEX INC.

## Consolidated Financial Statements For the years ended September 30, 2019 and 2018

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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 statement of financial position as at September 30, 2019, and the consolidated statement of operations and comprehensive loss, consolidated statement of cash flows and statement of changes in shareholders' equity for the year 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, 2019, and its consolidated financial performance and its consolidated cash flows for the year 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.

### Other matter

The consolidated financial statements of the Company for the year ended September 30, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on January 9, 2019.

### 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 and negative operating cash flows during the year ended September 30, 2019 and, as of that date, the Company has an accumulated deficit. 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 the 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 the 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 consolidated 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

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
January 21, 2020

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

As at	September 30, 2019	September 30, 2018
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash	\$ 739,608	\$ 1,047,657
Trade and other receivables	Notes 4 & 14 834,304	576,910
Inventory	Note 5 270,821	299,484
Prepaid expenses	55,794	39,721
	1,900,527	1,963,772
Property and equipment	Note 6 85,773	112,471
Intangible assets	Note 7 202,449	242,939
	\$ 2,188,749	\$ 2,319,182
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	Note 8 \$ 338,656	\$ 427,511
Unearned revenue	Note 9 963,020	717,482
Current portion of long-term liabilities	Note 10 243,000	96,000
	1,544,676	1,240,993
<i>Long-term Liabilities</i>	Notes 10 & 14 1,109,329	650,921
	2,654,005	1,891,914
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital	Note 11 12,405,566	12,405,566
Warrants	58,783	684,598
Stock-based compensation reserve	563,406	506,857
Contributed surplus	2,065,809	1,317,193
Deficit	(15,558,820)	(14,486,946)
	(465,256)	427,268
	\$ 2,188,749	\$ 2,319,182

Nature of business and going concern [Note 1](#)

Contractual obligations [Note 12](#)

**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, 2019	September 30, 2018
<i>Revenue</i>	Note 19 \$ 3,250,583	\$ 2,852,746
<i>Cost of sales</i>	Note 18	
Materials, assembly, installation	405,831	319,297
Customer service	540,151	539,952
	945,982	859,249
<i>Gross margin</i>	2,304,601	1,993,497
<i>Operating expenses</i>	Notes 11, 14 & 18	
Development	771,467	833,497
Selling and marketing	1,481,421	2,291,692
Administration	1,015,838	1,103,665
Gain on foreign exchange	(8,364)	(33,602)
	3,260,362	4,195,252
<i>Loss from operations</i>	(955,761)	(2,201,755)
Interest and accretion	Note 10 (116,113)	(51,900)
<i>Net and comprehensive loss for the year</i>	\$ (1,071,874)	\$ (2,253,655)
<i>Basic and diluted loss per share</i>	Note 17 \$ (0.008)	\$ (0.017)

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

For the years ended	September 30, 2019	September 30, 2018
<i>Operating activities:</i>		
Net and comprehensive loss for the year	\$ (1,071,874)	\$ (2,253,655)
Items not affecting cash from operations:		
Depreciation and amortization	69,059	85,293
Accretion of interest-free loan	60,399	51,900
Stock-based compensation	120,567	167,035
	(821,849)	(1,949,427)
Changes in non-cash working capital balances	(88,121)	(401,748)
<i>Cash flows from operating activities</i>	(909,970)	(2,351,175)
<i>Investing activities:</i>		
Additions to property, equipment, intangible assets	(1,871)	(22,725)
<i>Cash flows from investing activities</i>	(1,871)	(22,725)
<i>Financing activities:</i>		
Repayment of FedDev Ontario funding	(96,000)	(36,000)
G&G Private Capital funding	700,000	-
G&G financing costs	(50,208)	-
Increase in related party advances	50,000	-
<i>Cash flows from financing activities</i>	603,792	(36,000)
<i>Net decrease in cash</i>	(308,049)	(2,409,900)
Cash, beginning of year	1,047,657	3,457,557
<i>Cash, end of year</i>	\$ 739,608	\$ 1,047,657

Note 20

Supplemental information [Note 20](#)



**MEMEX INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Canadian dollars)

	Share Capital		Warrants	Stock based compensation reserve	Contributed surplus	Deficit	Shareholders' (Deficit) /Equity
	Number of shares	Amount					
	Note 11						
<i>Balance, October 1, 2017</i>	134,156,883	\$ 12,405,566	\$ 684,598	\$ 368,980	\$ 1,288,035	\$ (12,233,291)	\$ 2,513,888
Issuance of options	-	-	-	167,035	-	-	167,035
Options expired	-	-	-	(29,158)	29,158	-	-
Net and comprehensive loss for the year	-	-	-	-	-	(2,253,655)	(2,253,655)
<i>Balance, September 30, 2018</i>	134,156,883	\$ 12,405,566	\$ 684,598	\$ 506,857	\$ 1,317,193	\$ (14,486,946)	\$ 427,268
<i>Balance, October 1, 2018</i>	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)
<b>Balance, September 30, 2019</b>	134,156,883	\$ 12,405,566	\$ 58,783	\$ 563,406	\$ 2,065,809	\$ (15,558,820)	\$ (465,256)

**MEMEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**  
(Canadian dollars)

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**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, 2019, 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 21, 2020**.

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, 2019, the Company has an accumulated deficit of \$15,558,820 (2018 - \$14,486,946), negative cash flows from operations of \$909,970 (2018 - \$2,351,175) and working capital of \$355,851 (2018 - \$722,779). Given its current working capital 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.

**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.

Effective October 1, 2018, the Company adopted IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at October 1, 2018. There were no effects on opening balances at October 1, 2018 with respect to the adoption of these policies.

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

**MEMEX INC.**  
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(Canadian dollars)

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. No allocation of direct or indirect labour or any non-assembly or manufacturing costs is made.

**(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

**MEMEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

(Canadian dollars)

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**

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") establishes a comprehensive framework for determining whether, how much and when revenue is recognized. IFRS 15 replaced IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations.

The Company adopted IFRS 15 as issued by the IASB as at October 1, 2018 using the cumulative effect method (without practical expedients). Accordingly, the information presented for the year ended September 30, 2018 has not been restated. There was no material impact on the Company's consolidated financial statements.

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**

IFRS 9 replaces International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

**MEMEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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(Canadian dollars)

Upon adoption of IFRS 9, the main change in the Company's accounting policy on financial instruments was that derivative instruments previously held for trading now qualify for hedge accounting to the extent they comply with the IFRS 9 criteria for hedge accounting.

Financial assets including cash and trade and other receivables previously classified as loans and receivables as well as financial liabilities including accounts payable and accrued liabilities and long-term liabilities previously classified as other financial liabilities under IAS 39 are now classified as and measured at amortized cost under IFRS 9.

The Company adopted IFRS 9 retrospectively on October 1, 2019 without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended September 30, 2018 was accounted for in accordance with the Company's previous accounting policy under IAS 39.

(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 FVPL or 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

(ii) **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

**MEMEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

(Canadian dollars)

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) 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**

Effective with the adoption of IFRS 9 on October 1, 2018 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.

There were no impairment losses recognized as a result of the adoption of IFRS 9 as at the date of initial application.

**(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.

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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 11. The expected volatility assumptions for Memex option and warrant grants was based on the historical volatility of Memex shares.

**(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, 2019 and 2018 as the effects of including all outstanding options and warrants would be anti-dilutive.

**(l) 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

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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) **IFRS 16 - Leases**

IFRS 16 – Leases sets out a new model for lease accounting, replacing IAS 17. "Leases" and related interpretations. Under this new standard which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the consolidated statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 will be effective for accounting years beginning on or after January 1, 2019.

(ii) **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. Earlier adoption is permitted.

**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*

	2019	2018
Current	\$ 473,647	\$ 375,107
Over 30 days	62,506	47,746
Over 60 days	17,845	43,275
Over 90 days	273,807	105,642
	\$ 827,805	\$ 571,770
Other receivables	6,499	5,140
	\$ 834,304	\$ 576,910

**5. Inventory**

*As at September 30*

	2019	2018
Finished goods and component parts	\$ 181,499	\$ 177,767
Work-in-process	98,397	130,605
Less: provision for slow moving and obsolete	(9,075)	(8,888)
	\$ 270,821	\$ 299,484

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



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**6. Property and equipment**

	Furniture and Equipment	Computer Hardware	Total
<i>Cost</i>			
Balance at October 1, 2017	\$ 135,234	\$ 165,863	\$ 301,097
Additions	12,260	10,465	22,725
Balance at September 30, 2018	\$ 147,494	\$ 176,328	\$ 323,822
Additions	-	1,871	1,871
Balance at September 30, 2019	\$ 147,494	\$ 178,199	\$ 325,693
<i>Accumulated depreciation</i>			
Balance at October 1, 2017	\$ 80,849	\$ 95,814	\$ 176,663
Depreciation expense	12,103	22,585	34,688
Balance September 30, 2018	\$ 92,952	\$ 118,399	\$ 211,351
Depreciation expense	10,909	17,660	28,569
Balance at September 30, 2019	\$ 103,861	\$ 136,059	\$ 239,920
<i>Carrying amounts</i>			
As at September 30, 2018	\$ 54,542	\$ 57,929	\$ 112,471
As at September 30, 2019	\$ 43,633	\$ 42,140	\$ 85,773

**7. Intangible assets**

	Computer Software	Development Costs	Total
<i>Cost</i>			
Balance at October 1, 2017, September 30, 2018 and September 30, 2019	\$ 93,625	\$ 520,471	\$ 614,096
<i>Accumulated amortization</i>			
Balance at October 1, 2017	\$ 83,511	\$ 237,041	\$ 320,552
Amortization expense	10,114	40,491	50,605
Balance September 30, 2018	\$ 93,625	\$ 277,532	\$ 371,157
Amortization expense	-	40,490	40,490
Balance at September 30, 2019	\$ 93,625	\$ 318,022	\$ 411,647
<i>Carrying amounts</i>			
As at September 30, 2018	\$ -	\$ 242,939	\$ 242,939
As at September 30, 2019	\$ -	\$ 202,449	\$ 202,449

**8. Accounts payable and accrued liabilities**

	2019	2018
As at September 30		
Trade payables	\$ 292,628	\$ 380,190
Government remittances	46,028	47,321
	\$ 338,656	\$ 427,511

**9. Unearned revenue**

	2019	2018
As at September 30		
Undelivered projects	\$ 472,242	\$ 450,055
Prepaid client services	189,180	146,827
Future software rights	301,598	120,600
	\$ 963,020	\$ 717,482

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 \$717,482 in unearned revenue reported as at September 30, 2018, \$604,787 was recognized as revenue during the year ended September 30, 2019.

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**10. Long-term liabilities**

*As at September 30*

IBI term loan (a)  
G&G Private Capital (b)  
Company Officers (c)

	2019	2018
IBI term loan (a)	\$ 395,503	\$ 512,608
G&G Private Capital (b)	533,796	-
Company Officers (c)	180,030	138,313
	\$ 1,109,329	\$ 650,921

**(a) IBI term loan**

*As at September 30*

Balance repayable  
Less: Present value discount  
    Current portion

	2019	2018
Balance repayable	\$ 668,000	\$ 764,000
Less: Present value discount	(104,497)	(155,392)
Current portion	(168,000)	(96,000)
	\$ 395,503	\$ 512,608

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.

**(b) G&G Private Capital**

*As at September 30*

Advances repayable  
Less: Unamortized transaction costs  
    Present value discount  
    Current portion

	2019	2018
Advances repayable	\$ 700,000	\$ -
Less: Unamortized transaction costs	(50,208)	-
Present value discount	(45,996)	-
Current portion	(70,000)	-
	\$ 533,796	\$ -

On March 28, 2019 the Company finalized a loan agreement with affiliates of G&G Private Capital ("G&G"), whereby they agreed to provide the Company with up to \$1,400,000 in loan facilities (the "Loan") including an initial advance of \$700,000. Future advances could become available April 2020 provided the Company achieves specific operating milestones connected to revenue and operations. 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 are required in the first twelve months, and 5% of all amounts borrowed become repayable quarterly thereafter. 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 commit to advance the Company up to \$100,000 under identical lending terms and conditions, with an initial advance requirement of \$50,000, disclosed below, and also made on March 28, 2019.

In addition to interest and a financing fees, the Lenders are entitled to receive Company warrants determined by the amount and timing of each draw down as well as the closing price of the Company's Shares at the time of each advance. For the initial advance, 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.

The Company has paid a total of \$42,627 in interest to G&G during the current fiscal year.

**(c) Company Officers**

*As at September 30*

Deferred remuneration (i)  
Advances repayable (ii)  
Less: Present value discount  
    Current portion

	2019	2018
Deferred remuneration (i)	\$ 138,313	\$ 138,313
Advances repayable (ii)	\$ 50,000	-
Less: Present value discount	(3,283)	-
Current portion	(5,000)	-
	\$ 41,717	\$ -
Total payable to Company Officers (i) & (ii)	\$ 180,030	\$ 138,313

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(i) **Deferred remuneration pre-RTO**

The Company's CEO as well as another Company employee agreed to postpone receipt of their remuneration from prior years. 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, 2019, the CEO's deferred remuneration was \$86,543, unchanged from the prior year.

(ii) **Advances repayable - 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 up to \$100,000 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 \$3,045 in interest to the CEO and CFO in conjunction with the G&G loan during the current fiscal year.

(d) **Principal commitments**

Approximate principal repayments for the years ended **September 30** are as follows:

Year	
2020	\$ 243,000
2021	318,000
2022	693,000
2023	164,000

**11. 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*

	2019		2018	
	Number	\$	Number	\$
Outstanding, beginning & end of year	134,156,883	\$ 12,405,566	134,156,883	\$ 12,405,566

(c) **Preferred shares issued and outstanding**

There were no preferred share transactions or balances during the years ended September 30, 2019 or 2018.

(d) **Capital transactions**

(i) **For the year ended September 30, 2019 and 2018**

There were no transactions.

(e) **Warrants transactions**

(i) **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.

(ii) **For the year ended September 30, 2018**

There were no transactions.

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The following table reflects the warrants issued and outstanding as at September 30, 2019:

<i>Grant Date</i>	<i>Expiry Date</i>	<i>Remaining useful life (years)</i>	<i>Exercise price</i>	Number of warrants outstanding and exercisable
March 28, 2019	March 28, 2022	2.49	\$0.05	3,750,000

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

	<i>Weighted average</i>	Number of warrants outstanding
Balance October 1, 2017 and September 30, 2018	\$0.24	9,791,250
Warrants issued	\$0.05	3,750,000
Expired	\$0.24	(9,791,250)
As at September 30, 2019	\$0.05	3,750,000

**(f) Stock-based compensation reserve**

**(i) 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) were issued 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 would also expire ninety days after the employer-employee relationship is severed for any reason. The value of these Options are included in administrative expenses in the consolidated statement of operations over their vesting period. A total of \$7,446 was expensed during the current year. As of September 30, 2019, none of the Options were exercisable and 40,000 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 \$11,390 was expensed during the current year. As of September 30, 2019, 250,000 of the Options were exercisable and none have been forfeited.

**(ii) For the year ended September 30, 2018**

**1. Options issued to employees**

By unanimous resolution on January 19, 2018, the Board of Directors granted a total of 337,300 Options, exercisable at \$0.125 per option and valued at \$29,200 (Black-Scholes: expected life: two (87,300), five (250,000) years, risk free rate: 1.8% (2-year) and 2.02% (5-year), dividend yield: 0%, volatility: 100%, share price: \$0.125) were issued to a non-management employee of the Company, with 87,300 of the Options vesting immediately upon issue and expiring January 19, 2020, 125,000 of the Options vesting on January 19, 2020 and expiring January 19, 2023, and the final 125,000 Options vesting January 19, 2021 and expiring January 19, 2023. These Options would also expire ninety days after the employer-employee relationship is severed for any reason. The value of these Options is included in administrative expenses over their vesting period. A total of \$7,808 was expensed during the current year (2018 - \$12,437). As of September 30, 2019, none of the Options had been exercised and 94,500 Options had expired.

**2. Other stock-based compensation awards**

On March 15, 2018, the Company extended their agreement with Sophic Capital Inc. ("Sophic"), an investor relations firm. As part of the renewal agreement, on March 15, 2018, the Company granted Sophic a total of 500,000 Options to purchase Common Shares of the Company at \$0.07 per share, with one quarter (125,000) of the Options vesting each quarter commencing June 2018 and finishing March 2019. These Options were valued at \$21,900 (Black-Scholes: expected life: three years, risk free rate: 1.9%, dividend yield: 0%, volatility: 100%, share price: \$0.07). These Options expire on the earlier of 90 days from the termination of the engagement and March 15, 2021. The value of these Options is included in selling and marketing expenses over the vesting period. A total of \$3,558 was expensed during the current year (2018 - \$18,342). As of September 30, 2019, all of these Options were exercisable.

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**3. Options issued to Directors**

By unanimous resolution, on August 17, 2018, the Board of Directors granted the issuance of a total of 1,500,000 Options, exercisable at \$0.055 per Option and valued at \$62,000 (Black-Scholes: expected life: five years, risk free rate: 2.19%, dividend yield: 0%, volatility: 100%, share price: \$0.055). These Options were issued to each of the three non-management Directors (500,000 to each) on that date. One-third (500,000) of these Options vested immediately upon issue, one-third will vest August 17, 2019 and the remaining third vest August 17, 2020, with all Options expiring August 17, 2023 or ninety days after the Director's relationship with the Company is severed. The value of these Options is included in administrative expenses over their vesting period. A total of \$25,713 was expensed during the current year (2018 - \$27,096). As of September 30, 2019, 1,000,000 of these Options had vested.

The following table reflects the stock-based compensation options issued and outstanding as at **September 30, 2019**:

<i>Grant Date</i>	<i>Expiry Date</i>	<i>Remaining useful life (years)</i>	<i>Exercise Price</i>	<b>Number of Options Outstanding</b>	<b>Number of exercisable Options</b>
February 23, 2015	February 23, 2020	0.4	\$0.15	1,000,000	1,000,000
February 26, 2016	February 26, 2021	1.41	\$0.14	240,000	240,000
June 27, 2016	June 27, 2021	1.73	\$0.14	450,000	450,000
January 5, 2017	January 5, 2022	2.27	\$0.25	413,000	206,500
January 7, 2017	January 7, 2020	0.27	\$0.28	250,000	250,000
April 23, 2017	April 23, 2020	0.57	\$0.20	350,000	100,000
September 5, 2017	September 5, 2022	2.93	\$0.18	1,000,000	500,000
January 19, 2018	January 19, 2020	0.3	\$0.13	42,800	42,800
January 19, 2018	January 19, 2023	3.31	\$0.13	200,000	-
March 15, 2018	March 15, 2021	1.46	\$0.07	500,000	500,000
August 17, 2018	August 17, 2023	3.88	\$0.06	1,500,000	1,000,002
January 16, 2019	January 16, 2024	4.30	\$0.05	960,000	-
March 27, 2019	March 27, 2022	2.49	\$0.05	500,000	250,000
				<b>7,405,800</b>	<b>4,539,302</b>

The weighted average exercise price of the outstanding Options as at September 30, 2019 is \$0.12 (2018 - \$0.14).

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

	<b>Weighted Average Price</b>	<b>Number of Options Outstanding</b>
Balance October 1, 2017	\$0.17	5,342,720
Options issued	\$0.07	2,337,300
Expired and forfeit	\$0.16	(696,560)
<b>As at September 30, 2018</b>	\$0.14	6,983,460
Options issued	\$0.05	1,500,000
Expired and forfeit	\$0.16	(1,077,660)
<b>As at September 30, 2019</b>	\$0.12	7,405,800

**12. 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 vary inconsistently from year to year over the lease term. The total payments to be made over the term of the lease are being recognized as an expense over the lease term based upon an implied annual three percent increase in rent from year to year. The difference between the cumulative lease payments and the cumulative rental expense is included in the Company's accrued liabilities. At September 30, 2019, this difference amounted to \$41,903 and is recorded in accounts payable and accrued liabilities.

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Future minimum lease payments are summarized below:

<i>For the years ended September 30</i>	
2020	\$ 155,200
2021	168,100
2022	170,788
2023	179,388
2024	182,075
After 2024	138,975

### 13. 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, 2019, there was a concentration of credit risk with \$336,293 (41%) of the Company's receivables collectible from two customers. At September 30, 2018 there four customers that made up \$275,965 (48%) of trade and other receivables.

At September 30, 2019 the Company held cash of \$739,608 (2018 - \$1,047,657) with various chartered banks, all of which are highly rated.

#### (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, 2019, more than 87.7% of the Company's sales were in US dollars (2018 – 93.1%). Consequently, some assets and liabilities are exposed to foreign exchange fluctuations. As at September 30, 2019, cash, trade and other receivables and accounts payable and accrued liabilities of \$407,070, \$654,223 and \$56,976 respectively (2018 - \$314,813, \$477,143 and \$ 64,516) originated in US dollars and were converted into Canadian dollars at an exchange rate of 1.32 (September 30, 2018 - 1.29). A plus or minus 5% change in foreign exchange rate would affect loss and comprehensive loss by approximately \$54,000.

##### (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.

**MEMEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

(Canadian dollars)

**14. 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*

Salaries, benefits and directors' fees

Stock-based compensation

	2019	2018
Salaries, benefits and directors' fees	\$ 593,411	\$ 896,894
Stock-based compensation	\$ 60,468	\$ 102,621

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, the non-Officer Directors received \$36,000 for their services to the Company and \$25,713 relating to stock-based compensation was recognized for the year ended December 31, 2019 (2018 - \$18,000 in Director's fees and \$30,788 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, 2019, the Company had incurred a total of \$33,456 (2018 - \$7,758) in legal fees from NLLLP.

For the year ended September 30, 2019, the Company paid \$11,118 (2018 - \$28,181) 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.

**15. 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 fiscal years ending September 30, 2019 or 2018.

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.

**16. Income taxes**

Deferred tax assets have not been recognized in respect to deductible temporary differences of approximately \$15,100,000 (2018 - \$14,500,000) of which \$14,200,000 (2018 - \$13,400,000) arises from non-capital losses. The non-capital losses expire between 2030 and 2040, and most of the remaining differences may be carried forward indefinitely.

**17. 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, 2019 and 2018 were based on a net and comprehensive losses of \$1,071,874 and \$2,253,655 respectively and a weighted average number of shares outstanding of 134,156,883 for both years.

**(b) Dividends**

There were no dividends declared or paid by the Company in years ended September 30, 2019 or 2018. Further, there have been no dividends proposed by the directors since September 30, 2019.

**MEMEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**  
(Canadian dollars)

**18. 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*

	2019	2018
Materials	\$ 166,439	\$ 176,816
Direct labour	545,693	475,852
Other direct costs	193,360	166,091
Amortization	40,490	40,490
	<b>\$ 945,982</b>	<b>\$ 859,249</b>

**(b) Operating expenses**

*For the years ended September 30*

	2019	2018
Labour and benefits	\$ 2,089,830	\$ 2,505,810
Advertising and marketing	244,160	528,269
Office and other miscellaneous	119,650	152,763
Bad debts	6,139	13,109
Insurance	31,831	30,768
Professional fees	81,437	59,795
Occupancy	156,811	144,024
Communications and support	81,407	87,101
Depreciation and amortization	28,569	44,803
Travel	275,766	439,539
Stock-based compensation	120,567	167,035
Development costs	32,559	55,838
Net (gain) loss on foreign exchange	(8,364)	(33,602)
	<b>\$ 3,260,362</b>	<b>\$ 4,195,252</b>

**19. 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*

	2019	2018
Software licensing	\$ 1,780,555	\$ 1,431,166
Hardware	486,308	613,064
Support services and installation	983,720	808,516
	<b>\$ 3,250,583</b>	<b>\$ 2,852,746</b>

**(b) Timing of revenue recognition**

*For the years ended September 30*

	2019	2018
At a point in time	\$ 2,476,891	\$ 2,662,739
Over time	773,692	190,007
	<b>\$3,250,583</b>	<b>\$ 2,852,746</b>

**(c) Geographic Segmentation**

*For the years ended September 30*

	2019		2018	
	%	Revenue	%	Revenue
Canada	12.3	\$ 401,312	6.9	\$ 197,785
United States	72.2	2,348,206	91.3	2,604,131
Mexico	10.0	325,989	0.8	21,731
Other	5.5	175,076	1.0	29,099
		<b>\$ 3,250,583</b>		<b>\$ 2,852,746</b>



**MEMEX INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

(Canadian dollars)

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 depending on the size of their operations. Even though continuing business from the same customer may occur from year to year, the Company has no expectation of significant reoccurring revenues. 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). For the year ended September 30, 2018 there were no major customers.

**20. Additional cash flows information**

Changes in non-cash working capital items consist of:

*For the years ended September 30*

Trade and other receivables

Inventory

Prepaid expenses

Accounts payable and accrued liabilities

Unearned revenue

	2019	2018
	\$ (257,394)	\$ (128,127)
	28,663	(144,278)
	(16,073)	2,984
	(88,855)	(136,495)
	245,538	(4,168)
	\$ (88,121)	\$ (401,748)

During the year ended September 30, 2019, \$58,783 (2018 - \$nil) of warrants were issued as part of debt financing.

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**Memex Inc.**

**Management's Discussion and Analysis**

**For the years ended September 30, 2019 and 2018**

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**MEMEX**  
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 consolidated financial statements of the Company and the related notes for years ended September 30, 2019 and 2018. The MD&A is prepared as at **January 21, 2020**, 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.

## SIGNIFICANT HIGHLIGHTS

### Bookings, Revenues and Backlog

Memex reported \$3.25 million in revenue for the year ended September 30, 2019, a 14% increase over 2018, and the highest annual sales level ever reported; Q4-2019 revenue of \$932 thousand was a 13% decline from the same quarter a year ago, however, still the second highest quarterly revenue amount ever reported.

Bookings for fiscal 2019 of \$3.48 million was up 27% from a year ago and represents the best annual bookings level since commencing operations; Q4-2019's gross bookings of \$735 thousand was a 75% increase from a year ago, and net bookings of \$503 thousand was up 19% from Q4-2018.

The Company finished fiscal 2019 with \$1.19 million in project backlog up \$89 thousand or 8% from the beginning of the fiscal year, but down 32% from the beginning of the quarter.

### Sales and Marketing

Marketing efforts in fiscal 2018 including tradeshows, webinars, speaking events and other market presence events generated a significant number of quality prospective customer leads which Memex's sales team spent a substantial part of 2019 working through. It allowed the Company to take a step back from regional tradeshows and events in 2019. Memex did continue its market presence through an assortment of lower cost on-line marketing campaigns and thought leadership events as well as attendance at the Canadian Manufacturing Technology Show ("CMTS").

For 2020, the Company will consider an increase in marketing events over 2019, as current leads on hand are run to ground. The marketing pinnacle for Memex in 2020 will be attendance at IMTS2020 (the "International Manufacturing Technology Show") in September.

### Cash Consumed in Operations

Cash consumed from operations in 2019 (before changes in non-cash working capital balances) was \$822 thousand, down \$1.13 million, or 58% from a year ago; cash consumed in Q4-2019 (also before changes in non-cash WC items) of \$71 thousand was \$49 thousand higher than Q4-2018, yet the second lowest operational cash burn thus far.

## Product Development

Memex continued to evolve its core platform MERLIN Tempus, MERLIN Tempus EE, and MERLIN DNC. Additional front-end user facing visualization components, as well as back end data processing functionality was added, borne out of ideas that primarily flowed from current customer installations. These enhancements are designed to further unlock revenue potential from existing clients as they continue to expand their digital transformation footprint within their organizations. Platform changes were also made to more readily capture single tenant SAAS opportunities as they become available, and as market forces dictate this as a viable deployment strategy / option.

For fiscal 2020, Memex has identified and prioritized additional development opportunities that should add accretive business use case scenarios that will be leveraged within existing customers as well as to net new customers to enhance their revenue profile per install.

## Other Management Initiatives

### Capitalization

In March 2019, the Company secured a loan facility arrangement with G&G Private Capital ("G&G") for an initial tranche of \$700 thousand in combination with \$50 thousand provided under the same terms by Officers of the Company. Only interest payments were required for the first twelve months, with the principal repayment commencing March 2020.

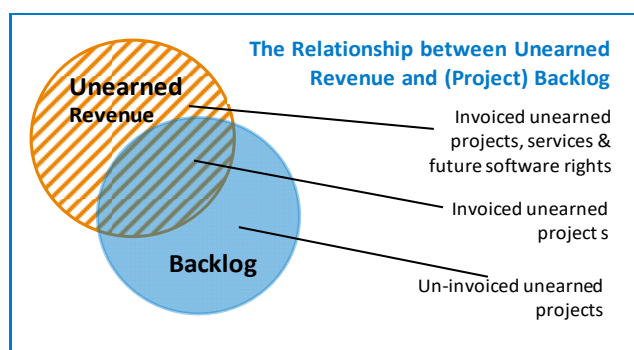
### Strategic Alliances

During the past year, Company management and its Board of Directors considered and were presented with various proposals to expand the presence of the Company and its core product, MERLIN Tempus, through various alliances, partnerships and business combinations. Although none of the opportunities presented and reviewed rose to the level of serious consideration, management and Company directors will continue to pursue and consider new and innovative ways to expand Memex and MERLIN's market presence and shareholder value.

## 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.

$$\text{Bookings} = \text{Revenue} + \text{Ending backlog} - \text{Beginning backlog} + \text{or} - \text{Changes in unearned services \& future software rights}$$

## FIVE YEAR COMPARISON

### Bookings and Revenues

Fiscal 2019 produced the highest revenues and bookings not just in the past 5 years, but in the Company's history. Revenue for 2019 was a 14% increase over fiscal 2018 and 34% higher than the past 5-year average.

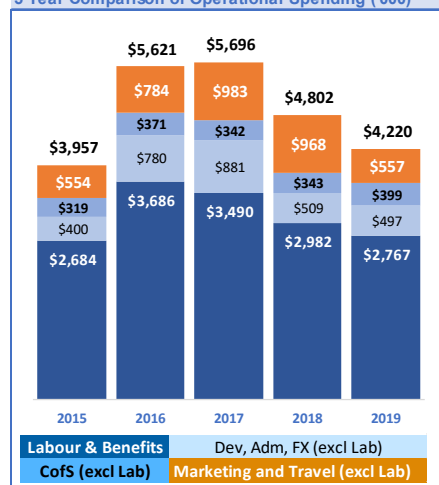
Despite having two previously booked projects cancelled in the fourth quarter of 2019, it has been the Company's most successful year for project bookings (see 'Other Financial Measures') since Memex started measuring this data at the beginning of 2016. Project cancellations once a customer purchase order has been received is very uncommon, this marking only the second and third occurrences since commencing operations.

Since 2016, the Company's bookings and revenue trajectory has been positive, and has been accomplished with fewer resources dedicated to sales development and marketing as management attempts to balance market penetration and cost containment.

### Operational Spending and Results of Operations

The substantial improvement in operational performance in 2019 from its low point in 2017 is a combination of steady improvements in revenue generation and management's ability to reduce operational spending.

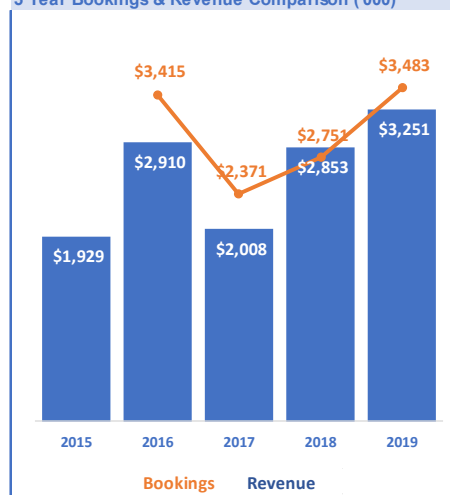
5 Year Comparison of Operational Spending ('000)



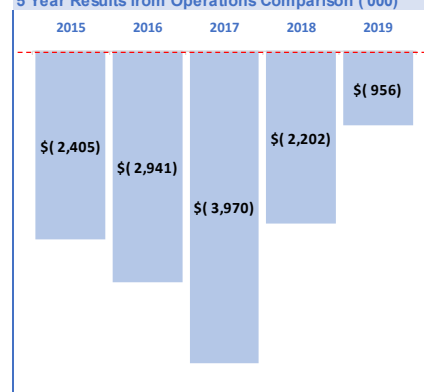
The operational loss reported in 2019 was less than a quarter of the loss reported in 2017, and half of the loss reported in the prior year. Reducing labour and benefits costs by more than \$700 thousand, and marketing (including travel) expenses by more than \$400 thousand, all while generating increased revenues have brought the Company that much closer to the cash flow break-even point continually targeted by management.

For fiscal 2020, management intends to continue to focus on spending control, managing spending increases with further bookings and revenue development.

5 Year Bookings & Revenue Comparison ('000)



5 Year Results from Operations Comparison ('000)



### LOOKING FORWARD - Market Trend

The Company's management believes that the global market trends in IoT, IIoT and data analytics are strong, will continue to grow at a rapid pace and will position Memex's software offering, MERLIN, at the crest of significant demand as 2019 winds up and manufacturers look to keep pace with their own competition through 2020.

According to Daniel Newman writing for Forbes Magazine, right after the development of 5G technology and the associated technology to support faster WiFi speeds, the biggest trend in digital transformation for 2020 will be the competitive advantage gained from data analytics. He goes on to suggest that businesses that are not investing heavily in analytics by 2020 may not be in business at the end of 2021.

Martin Boggess, Vice President, Manufacturing and Supply Chain for Hitachi predicted that IIoT would be the Big Thing in Manufacturing starting in 2019, and that 63% of manufacturers believe that applying IoT to products will increase profitability over the next five years and are set to invest \$267 billion in IoT by the end of 2020. Senior Vice President at Hitachi Solutions America, Michael Strand, contends that "IoT and predictive analytics are having a major impact on manufacturing, offering exciting new opportunities for connecting operations and transforming business processes." Further, he states that "Innovation is driving business growth, and technology in enabling manufacturers to evolve with an increasingly digital-first business landscape."

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

## OVERALL PERFORMANCE

Memex reported \$3.25 million in revenue for the year ended September 30, 2019, its best-ever result, compared to \$2.85 million in the same period a year ago, an increase of \$398 thousand, or 14%;

The Company showed a \$1.07 million net and comprehensive loss for fiscal 2019, equating to an \$0.008 loss per share, compared to a \$2.25 million net and comprehensive loss a year ago, and a \$0.017 loss per share;

Bookings for fiscal 2019 totalled \$3.48 million, its best annual result, versus \$2.75 million in the same period a year ago, up 27%;

Gross margin percentage for the year of 70.9% is up slightly from 69.9% experienced in fiscal 2018;

Cash consumed from operating activities (before changes in working capital balances) was \$910 thousand for the 2019 year, down \$1.44 million or 61% from fiscal 2018; and

The Company had \$356 thousand in working capital including \$740 thousand in cash at September 30, 2019, as compared with \$723 thousand in working capital and \$1.05 million in cash at September 30, 2018.

## SELECTED ANNUAL INFORMATION

For the years ended September 30 (Canadian dollars - in thousands except per share performance)	2019	2018	% change	
Revenues	3,251	2,853	↑	14%
Gross margin	2,305	1,993	↑	16%
Operating expenses				
Development	771	833	↓	7%
Selling and marketing	1,481	2,292	↓	35%
Administration	1,016	1,104	↓	8%
Loss from operations	(956)	(2,202)	↓	57%
Net and comprehensive loss for the period	(1,072)	(2,254)	↓	52%
Basic and diluted loss per share	(0.008)	(0.017)	↓	54%
Weighted average shares outstanding	134,157	134,157	↔	0%
Actual shares outstanding	134,157	134,157	↔	0%

## RESULTS OF OPERATIONS

### Revenues and Bookings

Fiscal 2019 revenue of \$3.25 million was a \$398 thousand (14%) increase over 2018 annual revenue, the highest revenue level ever achieved.

Bookings for fiscal 2019 of \$3.48 million, were up \$732 thousand, or 27%, from fiscal 2018. Bookings represent the committed future business that the sales team has secured for future delivery. Bookings for the year were the highest annual bookings level ever achieved.

Total invoiced	# of Customers	
	2019	2018
< \$5,000	69	100
\$5,001 - \$50,000	60	46
\$50,001 - \$100,000	9	8
\$100,000 - \$250,000	6	7
> \$250,000	3	0
Total	147	161

Closing backlog at September 30, 2019, the bookings not delivered, was \$1.19 million, up \$89 thousand (8%) from September 30, 2018. This means the Company booked that much more than it delivered during fiscal 2019.

Management credits a combination of customer demographics and the size of the projects they have undertaken as well as ongoing market penetration and brand familiarity initiatives for the current year's top line improvements.

Bookings for the years ended September 30 (In thousands of Canadian dollars)	2019	2018	% change	
Revenue for the period	3,251	2,853	↑	14%
+ Backlog - end of period	1,189	1,100	↑	8%
- Backlog - beginning of period	(1,100)	(1,311)		
+ or - change in unearned service & maint fees	144	110		
Bookings for the period	3,484	2,752	↑	27%

### Gross Margin and Cost of Sales

Gross margin for the year of \$2.31 million is up \$312 thousand, or 16% from a year ago. Calculated as a percentage of revenue, gross margin was relatively consistent year over year increasing to 70.9% from 69.9% in fiscal 2018.

### Operating Expenses

Operating expenses for the year ended September 30, 2019 of \$3.26 million were \$935 thousand (22%) less than fiscal 2018. The most noticeable spending reductions were labour and benefits - \$416 thousand (17%), Advertising and promotion including related travel - \$448 thousand (4%) and stock-based compensation - \$46 thousand (28%).

### Development

Development spending for the year ended September 30, 2019 was down 7%, or \$62 thousand from a year ago with labour and travel spending down \$33 thousand in the current year.

### Selling and marketing

Selling and marketing expenses for the year ended September 30, 2019 of \$1.48 million were \$811 thousand, or 35% lower than fiscal 2018. Labour and travel spend was down \$505 thousand, and advertising and marketing spending was down \$294 thousand.

### Administration

Administrative expenses for the year ended September 30, 2019 were down 8%, or \$88 thousand to \$1.02 million. Stock-based-compensation (non-cash) down \$36 thousand and labour and benefits down \$41 thousand were the significant variances.

### Loss from operations

The Company's loss from operations for the year ended September 30, 2019 of \$956 thousand, was 57% lower than the \$2.20 million loss from a year ago.

### Other transactions effecting net and comprehensive loss

Interest and accretion of \$116 thousand in 2019 is \$64 thousand higher than a year ago. The increase relates to the G&G financing secured at the end of March 2019.

### Earnings per share

The basic and diluted loss per share of \$0.008 for the current year was based on a weighted average 134.2 million Common Shares outstanding (2018 – \$0.017 basic and diluted loss per share based on the same weighted average 134.2 million Shares outstanding).

## LIQUIDITY

As at (Canadian dollars - in thousands except working capital ratio)	September 30, 2019	September 30, 2018	% change	
Current assets	1,901	1,964	↓	3%
Total assets	2,189	2,319	↓	6%
Current liabilities	1,545	1,241	↑	24%
Long-term liabilities	1,109	651	↑	70%
Working capital*	356	723	↓	51%
Working capital ratio**	1.23 to 1	1.58 to 1		

\* Working capital = current assets less current liabilities

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

### Working Capital

As at September 30, 2019 the Company had working capital of \$356 thousand, including \$740 thousand in cash, as compared with \$723 thousand in working capital and \$1.05 million in cash at September 30, 2018.

On March 28, 2019 the Company finalized loan facility arrangements with affiliates of G&G Private Capital ("G&G"), which in conjunction with Company Officers could provide up to \$1.5 million in total financing if specific performance objectives are met. The Company received an initial tranche of \$750 thousand in funding in March 2019. If necessary, the \$750 thousand financing balance could become available after March 2020 if the Company meets the specified operational targets agreed to with G&G. There is, however, no certainty that the Company will meet those targets, or that the funding will become available.

During fiscal 2019 the Company repaid \$96 thousand of its interest-free FedDev Ontario loan, compared to \$36 thousand in 2018.

The Company spent \$2 thousand in capital additions in 2019 versus \$23 thousand in 2018.

### Liquidity risk

The Company has financial resources secured to meet its current obligations, as well as fund its immediate product development plan, and maintain its sales, marketing and customer support resources. As management continues to reduce costs and control spending in all areas, and bookings and revenue continue to rise towards the levels

necessary to achieve cash flow break-even, it is possible that future operations could be funded through its current business activities. However, there is no way to determine if enough positive traction will be achieved before the current working capital is exhausted, and there is no assurance that sufficient funds may be generated or obtained to meet the Company's objectives.

### 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. Most quotes are prepared and settled in US dollars.

At September 30, 2019, the Company employed or otherwise contracted six full-time US residents. All other utilized labour is Canadian. At September 30, 2019 the company possessed \$1.03 million (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 at October 1, 2018, the Company estimates and reserves its expected credit loss (its "ECL") for the twelve-month period following each reporting date.

At September 30, 2019, there was a concentration of credit risk with 41% of the Company's accounts receivable collectible from two customers. At September 30, 2018 there was no single customer that made up more than 10% of the total accounts receivable.

### Cash and cash equivalents

#### Operating activities

Net cash consumed through operating activities for the year ended September 30, 2019 of \$910 thousand (after changes in non-cash working capital balances) is down \$1.44 million, or 61%, from fiscal 2018. Management continues to monitor the monthly cash consumption to ensure capital continues to be available to fund ongoing activities.

#### Investing activities

The Company spent \$2 thousand on equipment additions in fiscal 2019 versus \$23 thousand in 2018.

#### Financing activities

The Company received \$750 thousand in new financing (G&G Private Capital) during the current fiscal year (Q2). The Company paid \$62 thousand in legal and other associated fees to obtain the financing.

The Company repaid a total of \$96 thousand (2018 - \$36 thousand) in long-term financing from FedDev Ontario during the year.

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

For the years ended September 30 (Canadian dollars - in thousands)	2019	2018		% change
Net Cash flows used in operating activities	910	2,351	↓	61%
Net Cash flows provided through (used) in investing activities	(2)	(23)	↓	91%
Net Cash flows provided by (used in) financing activities	604	(36)	↑	1778%
Cash, beginning	1,048	3,458	↓	70%
Cash, end	740	1,048	↓	29%

### Contractual obligations

The Company's lease of office space from Children's Financial Group Inc. extends to June 30, 2025. Future minimum lease payments for the years ending September 30<sup>th</sup> are 2020 - \$155 thousand, 2021 - \$168 thousand, 2022 - \$170 thousand, 2023 - \$179 thousand, 2024 - \$ 182 thousand and beyond – \$139 thousand.

### CAPITAL RESOURCES

The Company is using its capital to finance current operations as well as its product development and growth strategies. Memex capital consists of a combination of debt and equity; it has term-debt through the FedDev Ontario ("IBI") for which required repayments commenced October 2017 as well as term-debt with G&G, with principal repayments commencing April 2020. 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.

### Transactions with Related Parties

Related parties include key management personnel, significant shareholders of the Company (those holding greater than 10% of the total outstanding shares), close family members and enterprises that are controlled by these individuals, as well as the Board of Directors of the Company. As at **January 21, 2020** only Company CEO and President, David McPhail (12.7%) owns (through an entity he controls) more than 10% of the total outstanding shares of the Company.

As at September 30, 2019, the balance of loans and advances to the Company from key management personnel totalled \$188 thousand (before present value adjustment). An enterprise controlled by Company CEO and President, Dave McPhail is owed \$120 thousand, \$87 thousand for unpaid management fees between July 2010 and June 2011 and \$33 thousand as part of the G&G financing. An enterprise controlled by former Company Officer, John Rattray, is owed \$51 thousand for unpaid management fees between July 2009 and April 2010. Company CFO, Ed Crymble is owed \$17 thousand as part of the G&G financing.

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, 2019 the Company had incurred \$33 thousand in legal fees from NLLLP (2018 - \$8 thousand).

Directors’ fees of \$36 thousand and non-vested stock options (Black-Scholes) of \$26 thousand (total - \$62 thousand) were expensed in 2019 (2018 - \$49 thousand).

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 \$11 thousand during the first nine months of 2019 (all of fiscal 2018 - \$28 thousand) in fees.

### 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, 2019	January 21, 2020
Common Shares	134,157	134,157
Options to purchase common shares by current and former directors and officers <sup>1</sup>	3,740	3,740
Options to purchase common shares by non-officer employees and contractors <sup>1</sup>	2,416	2,373
Options to purchase common shares by investor relations firms <sup>1</sup>	1,250	1,000
Warrants to purchase common shares by current and former directors and officers <sup>2</sup>	250	250
Warrants to purchase common shares by lenders and investors <sup>2</sup>	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.

### SELECTED FOURTH QUARTER RESULTS

For the three months ended September 30 (Canadian dollars - in thousands except per share performance)	2019	2018	% change	
Revenues	932	1,077	↓	13%
Gross margin	648	882	↓	27%
Operating expenses				
Development	197	206	↓	4%
Selling and marketing	288	507	↓	43%
Administration	267	208	↑	28%
Loss from operations	(93)	(57)	↑	63%
Net and comprehensive loss for the period	(137)	(70)	↑	96%
Basic and diluted loss per share	(0.001)	(0.001)	↔	0%

## FOURTH QUARTER RESULTS OF OPERATIONS

### Revenues and Bookings

Q4-2019 revenue of \$932 thousand was \$145 thousand (13%) lower than Q4-2018, although still the second highest quarterly revenue reported since beginning operations. Q4-2019 revenue was \$16 thousand (2%) higher than Q3-2019.

Gross Bookings for the period totalled \$735 thousand, versus \$421 thousand in the same period a year ago, a 75% increase. (Net) bookings for the quarter, however, were only \$503 thousand after netting two cancelled projects booked in prior quarters against the total bookings collected in Q4. This represents a 19% increase from bookings in the same period a year ago. It is uncommon for a project to be cancelled once a customer purchase order has been received. Work had not started on either of the cancelled projects.

Closing backlog (cumulative bookings not yet delivered), was down \$378 thousand from the beginning of the quarter (July 1, 2019) and up \$89 thousand from the beginning of the fiscal year (September 30, 2018).

Bookings for the three month periods ended September (In thousands of Canadian dollars)	2019	2018	% change	
Revenue for the Quarter	932	1,077	↓	13%
+ Backlog - end of period	1,189	1,100	↑	8%
- Backlog - beginning of period	(1,567)	(1,780)		
+ or - change in unearned service & maint fees	(51)	24		
<b>Bookings for the Quarter</b>	<b>503</b>	<b>421</b>	<b>↑</b>	<b>19%</b>

### Gross Margin and Cost of Sales

Gross margin for the three months ended September 30, 2019 of \$648 thousand has decreased \$234 thousand, or 27% from the same quarter a year ago. Calculated as a percentage of revenue, gross margin decreased to 69.5% from 81.9% in Q4-2018. The Q4-2019 gross margin percentage closely mirrors the annual margin (70.9%) and the prior year margin (69.9%).

### Operating Expenses

Operating expenses for the three-month period ended September 30, 2019 of \$740 thousand were \$199 thousand (21%) less than the same quarter in fiscal 2018. Advertising and promotion including related travel spending was down a total of \$161 thousand from the same quarter of 2018, and labour and benefits has declined \$39 thousand comparing the same periods. The foreign exchange gain for the latest quarter of \$11 thousand was a \$29 thousand improvement from the \$17 thousand expense in Q4-2018. Changes in US exchange rates at the end of the quarter accounts for the significant FX change.

### Development

Development spending for the three-month period ended September 30, 2019 was down 4%, or \$9 thousand from the same quarter a year ago.

### Selling and marketing

Selling and marketing expenses for the three-month period ended September 30, 2019 of \$288 thousand, were \$219 thousand, or 43%, lower than the same quarter in fiscal 2018. Advertising and marketing spending was down \$130 thousand from 2018 (IMTS in 2018 is the Company's largest marketing spend and it takes place every other year). Labour and travel spend was down \$144 thousand for the quarter (fewer resources).

### Administration

Administrative expenses for the three-month period ended September 30, 2019 were up 28%, or \$59 thousand to \$267 thousand from Q4-2018. A combination of service subscriptions, general office, stock-based compensation and professional fees were all up slightly accounting for the increase.

### Loss from operations

The Company's loss from operations for the three-month period ended September 30, 2019 of \$93 thousand, was \$36 thousand higher than Q4-2018, but still the second lowest quarterly loss from operations ever reported.

### Other transactions effecting net and comprehensive loss

Interest and accretion charges of \$45 thousand have increased \$32 thousand from the \$13 thousand in the same quarter a year ago, entirely related to the new G&G term financing arrangement finalized in March 2019.

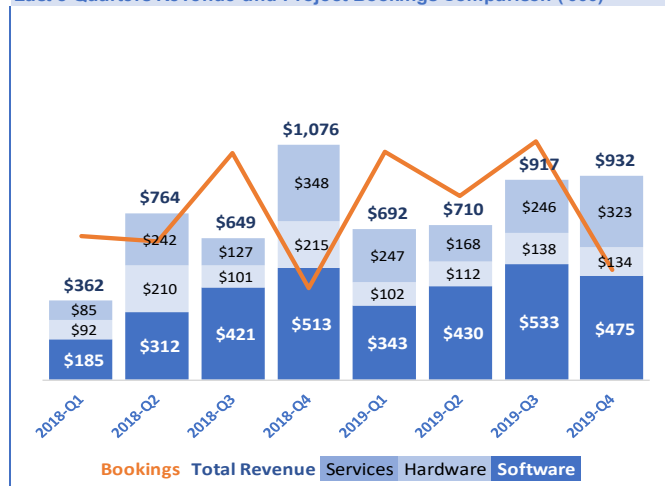
### Earnings per share

The basic and diluted loss per share of \$0.001 for the most recently completed quarter was based on a weighted average 134.2 million Common Shares outstanding (Q4-2018 – \$0.001 basic and diluted loss per share based on the same weighted average number of Shares outstanding).

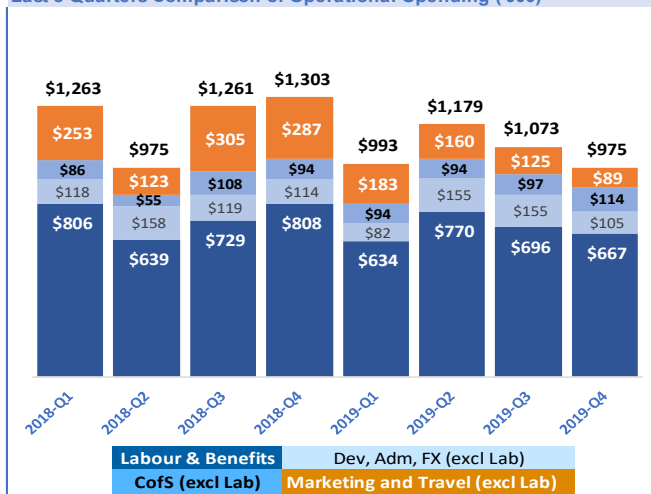
## SUMMARY OF QUARTERLY RESULTS

As at and for the three month periods ending (In thousands except per share amounts)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
<b>OPERATIONS INFORMATION</b>								
Bookings	503	1,094	843	1,043	420	1,039	632	660
Change in backlog, unearned revenue	429	(178)	(134)	(350)	656	(389)	132	(298)
Revenue	932	916	709	693	1,077	650	764	362
Cost of sales	284	236	197	228	195	236	221	207
Gross margin	648	680	512	464	882	414	543	155
Gross margin percentage	69.5%	74.2%	72.2%	67.0%	81.9%	63.8%	71.0%	42.7%
Operating expenses								
Development	197	194	196	185	206	207	199	222
Selling and marketing	288	405	358	430	507	609	521	654
Administration	267	253	260	235	208	292	347	256
Foreign exchange	(12)	36	17	(50)	17	(20)	(25)	(5)
Total operating expenses	740	889	832	799	939	1,088	1,041	1,127
Loss from Operations	(93)	(209)	(319)	(335)	(57)	(674)	(498)	(972)
Interest and other	(45)	(45)	(13)	(13)	(13)	(13)	(13)	(13)
Net and comprehensive loss	(137)	(254)	(332)	(348)	(70)	(687)	(511)	(985)
Basic and diluted loss per share	(0.001)	(0.002)	(0.002)	(0.003)	(0.001)	(0.005)	(0.004)	(0.007)
Weighted average shares o/s-period	134,157	134,157	134,157	134,157	134,157	134,157	134,157	134,157
Shares outstanding-period end	134,157	134,157	134,157	134,157	134,157	134,157	134,157	134,157
<b>CASH FLOW INFORMATION</b>								
Operating activities before chgs in NCWCB's*	(71)	(184)	(265)	(301)	(22)	(610)	(416)	(901)
Changes in NCWCB's*	(138)	110	109	(169)	(371)	317	(261)	(86)
Net Operating activities	(209)	(75)	(157)	(470)	(393)	(294)	(677)	(987)
Investing activities	-	-	(2)	-	(15)	(7)	-	-
Financing activities	(19)	(18)	664	(24)	(9)	(9)	(9)	(9)
Net cash flow	(228)	(92)	506	(494)	(418)	(310)	(686)	(996)
Cash, beginning of period	967	1,059	553	1,048	1,465	1,775	2,461	3,458
Cash, end of period	740	967	1,059	553	1,048	1,465	1,775	2,461
*NCWCB's=non cash working capital balances								
<b>BALANCE SHEET INFORMATION</b>								
Working capital	356	501	759	380	723	784	1,426	1,866
Total assets	2,189	2,491	2,772	1,819	2,319	2,559	3,004	3,651
(Deficit) / Shareholders' equity	(465)	(360)	(141)	96	427	483	1,125	1,577

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



Last 8 Quarters Comparison of Operational Spending ('000)



## 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.

In addition to this general policy, on October 1, 2018 the Company adopted IFRS 15 *Revenue from contracts with customers*, outlined below using the cumulative effect method (without practical expedients). Adoption of this pronouncement had no material impact upon results but did require additional disclosure within the notes that accompany the financial statements.

IFRS 15 "Revenue from Contracts with Customers" establishes a comprehensive framework for determining whether, how much and when revenue is recognized. IFRS 15 replaced IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. A summary of the various elements that comprise revenue as well as the policies for revenue recognition are essentially as follows:

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

The Company has adopted IFRS 9 effective October 1, 2018 and applied it on a retrospective basis. The application of IFRS 9 did not result in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 9.

IFRS 9 replaces International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary

measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

Upon adoption of IFRS 9, the main change in the Company's accounting policy on financial instruments was that derivative instruments previously held for trading now qualify for hedge accounting to the extent they comply with the IFRS 9 criteria for hedge accounting.

Financial assets including cash and trade and other receivables previously classified as loans and receivables as well as financial liabilities including accounts payable and accrued liabilities and long-term liabilities previously classified as other financial liabilities under IAS 39 are now classified as and measured at amortized cost under IFRS 9.

The Company adopted IFRS 9 retrospectively on October 1, 2018 without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended September 30, 2018 was accounted for in accordance with the Company's previous accounting policy under IAS 39.

#### (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 FVPL or 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.

**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 which has been 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 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 2019. There is no certainty that the Company will become profitable in the short term or if it will continue to incur net losses through 2020 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.

#### **IloT 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 IloT 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. At this point the Company does not 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 14.0%. 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.